

**School District of the City of  
Dearborn, Michigan**  
(includes P-12 and  
Henry Ford Community College)

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**Financial Report**  
**with Supplemental Information**  
**June 30, 2007**

# School District of the City of Dearborn, Michigan

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# School District of the City of Dearborn, Michigan

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## Independent Auditor's Report

To the Board of Education  
School District of the City of  
Dearborn, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the discretely presented component unit of the School District of the City of Dearborn, Michigan (the "School District") as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District of the City of Dearborn, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the discretely presented component unit of the School District of the City of Dearborn, Michigan as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Education  
School District of the City of  
Dearborn, Michigan

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the School District of the City of Dearborn, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2007 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Plante & Moran, PLLC*

October 9, 2007

# **School District of the City of Dearborn, Michigan**

## **Management's Discussion and Analysis (Unaudited) - Introduction**

### **Introduction**

The following discussion and analysis provides an overview of the financial position and activities of the School District of the City of Dearborn, Michigan (the "School District") for the year ended June 30, 2007. The School District is identified as a P-14 school district located in Wayne County, Michigan. The P-12 component reflects the preschool, elementary, and secondary components of the School District. Henry Ford Community College (the "College") represents the post-secondary education component of the School District. Henry Ford Community College Foundation (the "Foundation") is reported within the component unit column in the financial statements as a legally separate entity from the School District.

This section of the School District's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2007. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

### **Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds. The P-12 activities are classified as governmental funds and include the following for the P-12: the General Fund and all other funds presented in one column as nonmajor funds. The College's activities are reflected in the proprietary funds of the School District's fund financial statements and include all funds of the College. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the P-12 acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)

(Required Supplemental Information)

#### **Basic Financial Statements**

District-wide Financial Statements      Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for Major Fund

Other Supplemental Information

# **School District of the City of Dearborn, Michigan**

## **Management's Discussion and Analysis (Unaudited) - Introduction (Continued)**

### ***Reporting the School District as a Whole - District-wide Financial Statements***

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental, business-type, and component unit activities for the School District. The governmental activities encompass all of the P-12's services, including instruction, support services, adult and community education, athletics, center programs, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities. The business-type activities encompass all of the College's activities, including instruction, support services, and auxiliary activities. Property taxes, unrestricted state appropriations, tuition and fees, and federal and state grants finance most College activities. Component unit activities include the activities of Henry Ford Community College Foundation.

# **School District of the City of Dearborn, Michigan**

## **Management's Discussion and Analysis (Unaudited) - Introduction (Continued)**

### ***Reporting the School District's Most Significant Funds - Fund Financial Statements***

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Services and Adult Education Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District include only the activities of the P-12 and use the following accounting approach:

Governmental funds - All of the P-12's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the P-12 and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the P-12's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

The proprietary funds of the School District include only the activities of the College and use the following accounting approach:

Proprietary funds - All College services are reported in proprietary funds. Proprietary funds are accounted for using an economic resources measurement focus and the accrual basis of accounting. This means that private sector standards of accounting issued prior to November 30, 1989 generally are followed to the extent that those standards do not conflict with guidance of the Governmental Accounting Standards Board. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred.

### ***The School District as Trustee - Reporting the School District's Fiduciary Responsibilities***

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Discussion of the P-12 and College activities follows.



# School District of the City of Dearborn, Michigan

## Management's Discussion and Analysis (Unaudited) - P-12

### Dearborn Public Schools (P-12)

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the P-12's net assets as of June 30, 2007, which are reported as governmental activities of the School District:

TABLE I

	Governmental Activities	
	2007	2006
	(in millions)	
<b>Assets</b>		
Current assets	\$ 41.1	\$ 33.9
Restricted assets	2.8	5.6
Capital assets	<u>238.9</u>	<u>239.0</u>
Total assets	282.8	278.5
<b>Liabilities</b>		
Current liabilities	42.3	38.7
Long-term liabilities	<u>166.2</u>	<u>174.8</u>
Total liabilities	<u>208.5</u>	<u>213.5</u>
<b>Net Assets</b>		
Invested in property and equipment - Net of related debt	66.7	60.9
Restricted	2.2	2.4
Unrestricted	<u>5.4</u>	<u>1.7</u>
Total net assets	<u><u>\$ 74.3</u></u>	<u><u>\$ 65.0</u></u>

The above analysis focuses on the net assets (see Table I) of the P-12. The change in net assets (see Table 2) of the P-12's activities is discussed below. The P-12's net assets were \$74.3 million at June 30, 2007. Capital assets, net of related debt totaling \$66.7 million, compares the original cost, less depreciation of the P-12's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the P-12's ability to use those net assets for day-to-day operations. The remaining amount of net assets, \$5.4 million, was unrestricted.

# School District of the City of Dearborn, Michigan

## Management's Discussion and Analysis (Unaudited) - P-12 (Continued)

The \$5.4 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' P-12 operations. The unrestricted net assets balance enables the P-12 to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the P-12 as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets for fiscal years 2007 and 2006.

TABLE 2

	Governmental Activities	
	2007	2006
	(in millions)	
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 13.5	\$ 12.9
Operating grants	25.9	18.1
General revenue:		
Property taxes	71.4	71.1
State foundation allowance	112.1	112.8
Other	1.0	1.1
Total revenue	223.9	216.0
<b>Functions/Program Expenses</b>		
Instruction	117.3	116.1
Support services	76.4	79.3
Food services	5.0	5.0
Athletics	1.5	1.5
Interest on long-term debt	7.8	8.4
Loss on disposal of assets	0.2	1.1
Depreciation (unallocated)	6.4	2.6
Total functions/program expenses	214.6	214.0
<b>Increase in Net Assets</b>	<b>\$ 9.3</b>	<b>\$ 2.0</b>

# **School District of the City of Dearborn, Michigan**

## **Management's Discussion and Analysis (Unaudited) - P-12 (Continued)**

As reported in the statement of activities, the cost of all of our governmental activities this year was \$214.6 million. Certain activities were partially funded from those who benefited from the programs, \$13.5 million, or by other governments and organizations that subsidized certain programs with grants and contributions, \$25.9 million. We paid for the remaining "public benefit" portion of our governmental activities with \$71.4 million in taxes, \$112.1 million in state foundation allowance, and with our other revenues, i.e., interest and fees collected for services.

The P-12 experienced an increase in net assets of \$9.3 million. Key reasons for the change in net assets are due to:

- The Building and Site Capital Projects Fund net assets decreased by \$500,000 as planned due to the timing of the related capital projects.
- The School Services Fund (Adult Education and Community Services Fund and Food Services Fund) increased by \$300,000 due to revenues exceeding expenditures.
- Unrestricted net assets increased due to revenues exceeding expenditures by \$1.5 million in the General Fund and the corresponding decrease in the School District's liabilities by \$2.2 million for a net increase of \$3.7 million.
- The reduction of several long-term liabilities such as self-insurance reserves, compensated absence reserves, as well as the early retirement liability, totalling approximately \$3.3 million.

As discussed above, the net cost shows the financial burden that was placed on the State and the P-12's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the P-12 and balance those needs with state-prescribed available unrestricted resources.

### **The P-12's Funds**

As we noted earlier, the P-12 uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the P-12 is being accountable for the resources taxpayers and others provide to it and may provide more insight into the P-12's overall financial health.

As the P-12 completed this year, the governmental funds reported a combined fund balance of \$14.7 million, which is an increase of \$300,000 from last year. The primary reasons for the increase are as follows:

In the General Fund, our principal operating fund, the fund balance increased by \$1.5 million, over the original budget, and equal to the final budget. This increase was planned and expected to be larger than the original budget. This was due primarily to the unexpected increase in student enrollment of 427 over the previous September count.

# **School District of the City of Dearborn, Michigan**

## **Management's Discussion and Analysis (Unaudited) - P-12 (Continued)**

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General Fund fund balance is available to fund costs related to allowable school operating purposes.

Our Special Revenue Funds increased from the prior year, reporting a net increase of approximately \$705,000. This was due to increases in the Adult Education Fund (\$346,000), the Center Program Fund (\$355,000), and the Food Services Fund (\$4,000). The Center Program increase was due to the timing of revenue collections.

Combined, the P-12 Debt Service Funds showed a fund balance increase of approximately \$90,000. Millage rates were increased in 2007 to pay the required principle and interest. Millage rates are determined annually to ensure that the School District (including the P-12 and the College) accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

The combined Capital Projects Funds fund balance decreased as the School District continued construction related to the 2002 bond issues. The construction projects are estimated to be approximately 99 percent complete at June 30, 2007.

### **General Fund Budgetary Highlights**

Over the course of the year, the P-12 revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted in June. A schedule showing the P-12's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

There were adjustments made to the 2007 original budget. Budgeted revenues were increased in the area of state aid, due to an increase in the blended student enrollment.

Budgeted expenditures were increased to reflect the increased expense of staff required for the increased students.

There were variances between the final budget and actual amounts within the General Fund. Revenues exceeded budget primarily due to restricted federal and state grants being over budget, incoming transfers being under budget, and state aid being slightly under budget. Expenditures exceeded the final budget primarily due to the instructional and support services necessary for various federal and state programs.

# School District of the City of Dearborn, Michigan

## Management's Discussion and Analysis (Unaudited) - P-12 (Continued)

### Capital Assets and Debt Administration

#### **Capital Assets**

As of June 30, 2007, the P-12 had \$283.2 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net decrease (including additions, disposals, and adjustments) of approximately \$4.1 million, or 1.5 percent, from last year.

This year's gross additions of \$7.5 million included land, technology, building renovations, buses, and other vehicles. There was no new debt issued for these additions. This year, we also reclassified all of our construction in progress to buildings, building improvement, equipment, and other capital assets. During this reclassification, we also identified approximately \$10 million of expenditures that were below the District's dollar threshold for capitalization and not considered capital assets. In addition, a parcel of land was sold, valued at \$.8 million.

P-12 capital assets consist of the following:

	<u>2007</u>	<u>2006</u>
Land	\$ 11,423,864	\$ 10,566,192
Construction in progress	-	145,942,058
Buildings and building improvements	234,599,003	112,403,827
Buses and other vehicles	8,727,194	8,253,929
Equipment and other	<u>28,406,170</u>	<u>-</u>
Total capital assets	<u><b>\$ 283,156,231</b></u>	<u><b>\$ 277,166,006</b></u>

We anticipate capital additions will be approximately \$4.0 million for the 2007-2008 year. We present more detailed information about our capital assets in the notes to the financial statements.

#### **Debt**

At the end of this year, the School District had \$170.7 million in bonds outstanding (excluding related discounts, premiums, and issuance costs) versus \$176.9 million in the previous year - a change of approximately 3.5 percent. Those bonds consisted of the following:

	<u>2007</u>	<u>2006</u>
General obligation bonds	<u><b>\$ 170,732,697</b></u>	<u><b>\$ 176,900,319</b></u>

# **School District of the City of Dearborn, Michigan**

## **Management's Discussion and Analysis (Unaudited) - P-12 (Continued)**

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The School District's general obligation bond ratings continue to be AAA and Aaa. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$6.7 million (of which \$5.7 million is allocated to the P-12 and \$1.0 million to the College) is significantly below this \$671 million statutorily imposed limit.

Other obligations include accrued vacation pay, compensated absences, installment purchase agreements, and self-insurance liabilities. We present more detailed information about our long-term liabilities in the notes to the financial statements.

### **Economic Factors and Next Year's Budgets and Rates**

Our elected officials and administration considered many factors when setting the P-12's 2008 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2007-2008 fiscal year is 75 percent and 25 percent of the February 2007 and September 2007 student counts, respectively. The 2007-2008 budget was adopted in June 2007, based on an estimate of students that will be enrolled in September 2007. Approximately 82 percent of total General Fund revenue is from the foundation allowance. Under state law, the P-12 cannot assess additional property tax revenue for general operations. As a result, School District funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2007-2008 school year, we anticipate that the fall student count will be equal to the estimates used in creating the 2007-2008 budget. Once the final student count and related per pupil funding is validated, state law requires the P-12 to amend the budget if actual School District resources are not sufficient to fund original appropriations.

Since the P-12's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. As of the date of this audit, the State has not presented a final School Aid Fund budget; therefore, our assumptions for the 2007-2008 fiscal year reflect no increase in the state foundation allowance and no change in our categorical funding received from the state aid budget. Once a state aid budget is completed and agreed to by all governmental agencies and the September student count numbers are finalized, we will produce a first revision of the 2007-2008 budget.

# School District of the City of Dearborn, Michigan

## Management's Discussion and Analysis (Unaudited) Henry Ford Community College

### Henry Ford Community College

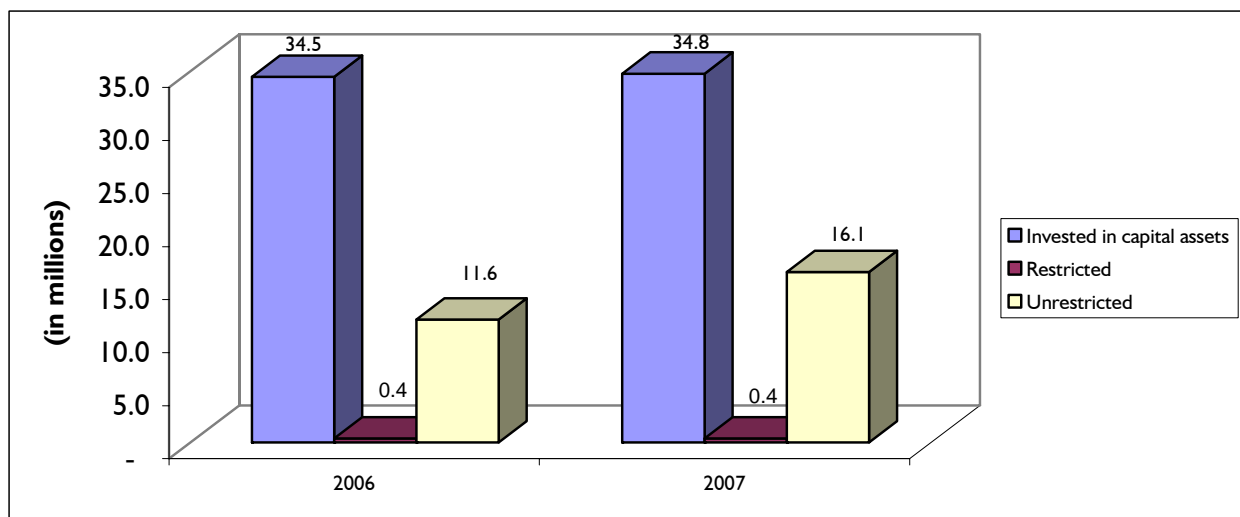
This discussion and analysis of Henry Ford Community College's financial statements provide an overview of the College's financial activities for the year ended June 30, 2007. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the College's management.

This annual financial report includes the report of independent auditors, this management's discussion and analysis, the basic financial statements in the above referred format, notes to financial statements, and supplemental information.

### Financial Highlights

Overall, the College's financial position at June 30, 2007 improved from June 30, 2006. In total, the College's net assets increased \$4.8 million, or 10.3 percent, from the prior year. The overall increase is primarily the result of an increase in unrestricted net assets which were the result of improvements in the process to manage student accounts receivable, an increase in enrollment of approximately 2 percent, cost containments, and energy management.

The following chart provides a graphic breakdown of net assets by category as of June 30, 2007 and 2006.



# School District of the City of Dearborn, Michigan

## Management's Discussion and Analysis (Unaudited) Henry Ford Community College (Continued)

### The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets

One of the most important questions asked about the College's finances is, "Is the College as a whole better off or worse off as a result of the year's activities?" The statement of net assets and the statement of activities report information on the College as a whole and on its activities in a way that helps answer this question. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenues and expenses may be thought of as the College's operating results.

These two statements report the College's net assets and changes in net assets. You can think of the College's net assets and the difference between assets and liabilities as one way to measure the College's financial health, or financial position. Over time, increases or decreases in the College's net assets are one indicator of whether its financial health is improving or deteriorating. You should consider many other nonfinancial factors, such as the trend in college applications, student retention, condition of the buildings, and strength of the faculty, to assess the overall health of the College.

These financial statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector entities. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Following is an analysis of the major components of the net assets of the College as of June 30, 2007 and 2006:

#### Condensed Net Assets as of June 30

	2006	2007	Increase (Decrease)	Percent Change
<b>Assets</b>				
Current assets	\$ 24.3	\$ 27.7	\$ 3.4	14.0
Noncurrent assets - Capital assets - Net of depreciation	53.7	52.2	(1.5)	(2.8)
Total assets	<u>\$ 78.0</u>	<u>\$ 79.9</u>	<u>\$ 1.9</u>	2.4
<b>Liabilities</b>				
Current liabilities	\$ 9.8	\$ 10.8	\$ 1.0	10.2
Long-term liabilities	21.7	17.8	(3.9)	(18.0)
Total liabilities	31.5	28.6	(2.9)	(9.2)



# School District of the City of Dearborn, Michigan

## Management's Discussion and Analysis (Unaudited) Henry Ford Community College (Continued)

	2006	2007	Increase (Decrease)	Percent Change
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	\$ 34.5	\$ 34.8	\$ 0.3	0.9
Restricted	0.4	0.4	-	-
Unrestricted	<u>11.6</u>	<u>16.1</u>	<u>4.5</u>	38.8
Total net assets	<u>46.5</u>	<u>51.3</u>	<u>4.8</u>	10.3
Total liabilities and net assets	<u><u>\$ 78.0</u></u>	<u><u>\$ 79.9</u></u>	<u><u>\$ 1.9</u></u>	2.4

Net assets represent the difference between the College's assets and liabilities and, at June 30, 2007, the net assets of the College were \$51.3 million. The strength in total assets of \$79.9 million lies primarily with capital assets, net of related debt, which is \$34.8 million. Over the past 10 years, several capital projects have been completed which increased the square footage of the campus by nearly 50 percent. However, in fiscal year 2007, no new major capital projects were undertaken.

The primary change in the statement of net assets from 2006 to 2007 relates to an increase in unrestricted net assets. Student enrollments increased approximately 2 percent due to increased marketing efforts and a continuing poor economy in Michigan, which encourages residents to seek new job skills. Operating processes were improved to increase the number of students that receive financial aid, which further added to enrollment increases. Processes to improve the management of student accounts receivable were put in place which increased collections on delinquent accounts. Over the last three years, auxiliary operations have been re-engineered and the results have been an increase in net assets of approximately \$600,000 for three consecutive years.

Current assets increased \$3.4 million, or 14 percent, over the prior year as a result of better collection efforts. These improved processes also resulted in an increase in cash and investments of nearly \$5.1 million.

Current liabilities remained essentially flat as no new debt has been undertaken this fiscal year and no major changes in College operations have occurred.

# School District of the City of Dearborn, Michigan

## Management's Discussion and Analysis (Unaudited) Henry Ford Community College (Continued)

Following is an analysis of the major components of the changes in net assets of the College for the years ended June 30, 2007 and 2006:

### Condensed Changes in Net Assets for the Year Ended June 30 (in millions)

	2006	2007	Increase (Decrease)	Percent Change
<b>Operating Revenue</b>				
Tuition and fees	\$ 19.2	\$ 20.4	\$ 1.2	6.3
Grants and contracts	16.6	17.9	1.3	7.8
Auxiliary enterprises	6.6	7.2	0.6	9.1
Other	1.5	1.3	(0.2)	(13.3)
Total operating revenue	43.9	46.8	2.9	6.6
<b>Operating Expenses</b>				
Instruction	32.9	32.7	(0.2)	(0.6)
Instructional support	7.1	6.7	(0.4)	(5.6)
Student services	9.0	8.6	(0.4)	(4.4)
Institutional administration	8.2	9.0	0.8	9.8
Information technology	4.0	3.7	(0.3)	(7.5)
Physical plant operations	6.1	5.8	(0.3)	(4.9)
Auxiliary enterprises	6.0	6.3	0.3	5.0
Depreciation expense	3.0	3.1	0.1	3.3
Other operating expenses	0.1	0.1	-	
Total operating expenses	76.4	76.0	(0.4)	(0.5)
<b>Operating Loss</b>	(32.5)	(29.2)	3.3	(10.2)
<b>Nonoperating Revenue (Expense)</b>				
State appropriations	20.0	17.2	(2.8)	(14.0)
Property taxes	17.0	16.3	(0.7)	(4.1)
Other nonoperating expenses	(0.1)	0.5	0.6	(600.0)
Net nonoperating revenue	36.9	34.0	(2.9)	(7.9)
<b>Increase in Net Assets</b>	4.4	4.8	0.4	9.1
<b>Net Assets - Beginning of year</b>	42.1	46.5	4.4	10.5
<b>Net Assets - End of year</b>	<u>\$ 46.5</u>	<u>\$ 51.3</u>	<u>\$ 4.8</u>	10.3

# School District of the City of Dearborn, Michigan

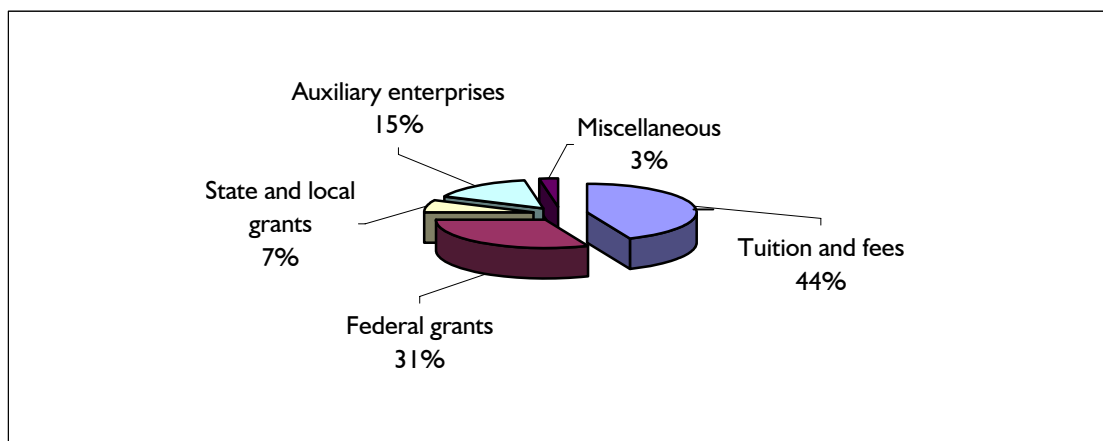
## Management's Discussion and Analysis (Unaudited) Henry Ford Community College (Continued)

### Operating Revenues

Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as tuition and fees and bookstore operations. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are considered a contract for services.

Operating revenues increased by 6.6 percent, from \$43.9 million to \$46.8 million. Federal grant revenue increased by approximately \$1.1 million from \$13.8 million to \$14.7 million. State and local grants and gifts increased by about \$500,000 from \$2.7 million to \$3.2 million.

The following is a graphic illustration of operating revenue by source for the year ended June 30, 2007:



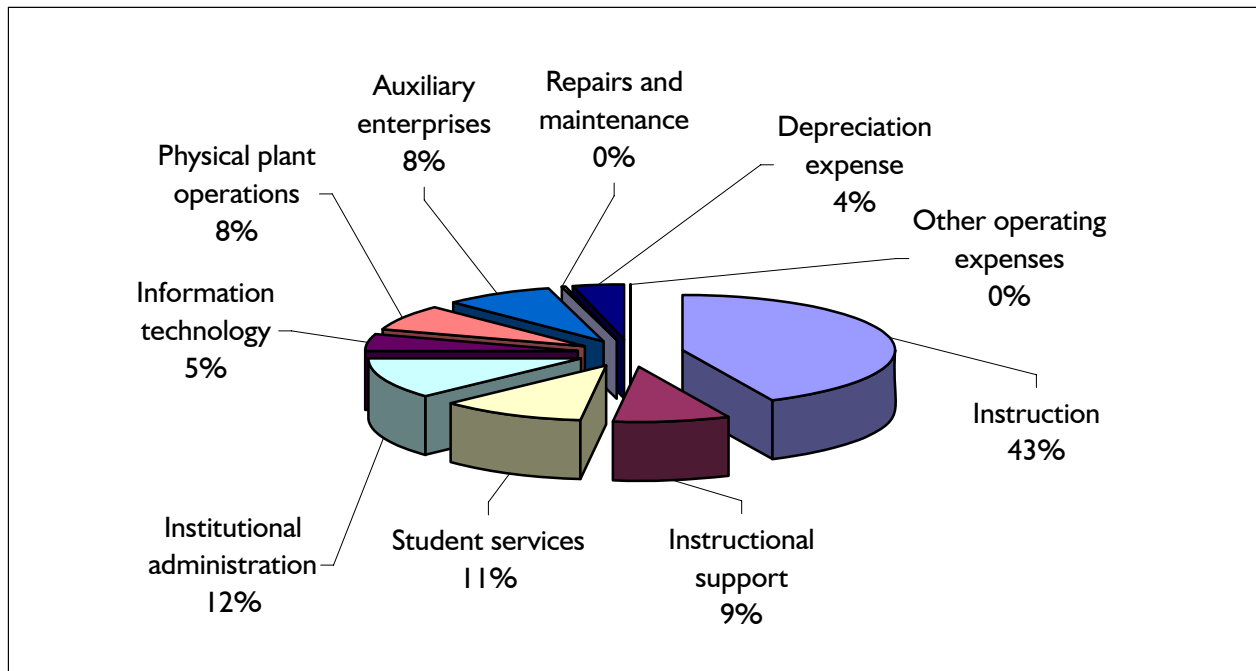
### Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the programs and primary purposes of the College. Overall, operating expenses decreased .5 percent. Increases in instruction and student services relate primarily to negotiated increases in salaries and wages and costs related to increases in enrollment. Other expense increases came from healthcare costs. Energy costs were contained through energy conservation programs. For the fiscal year ended June 30, 2007, depreciation expense was \$3.1 million.

# School District of the City of Dearborn, Michigan

## Management's Discussion and Analysis (Unaudited) Henry Ford Community College (Continued)

The following is a graphic illustration of operating expenses by source:



### Nonoperating Revenues

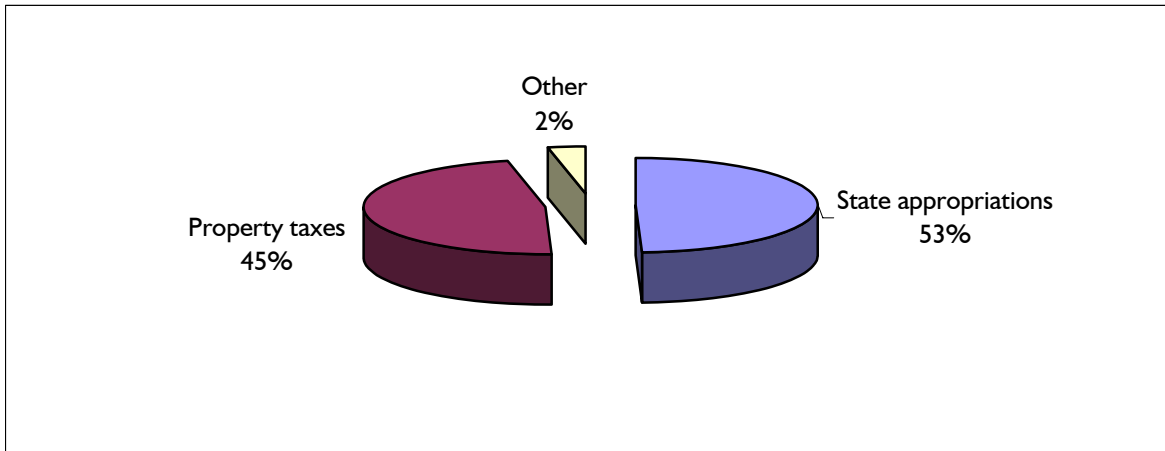
Nonoperating revenues are all revenue sources that are primarily nonexchange in nature. They consist primarily of state appropriations, property tax revenue, investment income (including realized and unrealized gains and losses), and grants and contracts that do not require any services to be performed.

In fiscal year 2006-2007, the State of Michigan did not increase state aid support for community colleges. Increases in property tax revenue were the result of an increase in the voted operating millage of the College of a half mill. The supplemental increase is in effect for five years.

# School District of the City of Dearborn, Michigan

## Management's Discussion and Analysis (Unaudited) Henry Ford Community College (Continued)

The following is a graphic illustration of nonoperating revenue by source:



### Statement of Cash Flows

Another way to assess the financial health of a college is to look at the statement of cash flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The statement of cash flows also helps users assess:

- An entity's ability to generate future net cash flows
- Its ability to meet its obligations as they come due
- Its needs for external financing

# School District of the City of Dearborn, Michigan

## Management's Discussion and Analysis (Unaudited) Henry Ford Community College (Continued)

### Cash Flows for the Year (in millions)

	2006	2007	Increase (Decrease)	Percent Change
<b>Cash Provided by (Used in)</b>				
Operating activities	\$ (29.7)	\$ (28.0)	\$ 1.7	5.7
Noncapital financing activities	34.0	33.8	(0.2)	(0.6)
Capital and related financing activities	(1.5)	(2.0)	(0.5)	(33.3)
Investing activities	0.8	1.2	0.4	
<b>Net Increase in Cash</b>	3.6	5.0	1.4	(38.9)
<b>Cash - Beginning of year</b>	11.2	14.8	3.6	32.1
<b>Cash - End of year</b>	<u>\$ 14.8</u>	<u>\$ 19.8</u>	<u>\$ 5.0</u>	33.8

Overall, total cash balances as of June 30, 2007 increased significantly over June 30, 2006. Total cash used for operating activities increased \$1.7 million over the prior year primarily due to payments to employees for contractual increases for compensation. Net cash provided by noncapital financing activities increased by nearly \$.4 million as the result of an increase in the voted operations millage of a half mill.

### Capital Assets

At June 30, 2007, the College held \$52.1 million in capital assets, net of accumulated depreciation. Depreciation charges totaled \$3.1 million for the current year. No new capital projects were begun during the year. Two projects are under consideration for next fiscal year including parking lot improvements and renovations to the Science Building.

Details of these assets for the past two years are shown below:

	2006	2007	Increase (Decrease)
Land	\$ 2.0	\$ 2.0	\$ -
Construction in progress	0.2	0.5	0.3
Land improvements	0.1	0.1	-
Buildings	74.6	74.6	-
Building improvements	2.4	2.5	0.1
Furniture	0.8	1.1	0.3
Equipment and other vehicles	10.5	11.4	0.9
<b>Total</b>	<u>\$ 90.6</u>	<u>\$ 92.2</u>	<u>\$ 1.6</u>

# **School District of the City of Dearborn, Michigan**

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## **Management's Discussion and Analysis (Unaudited) Henry Ford Community College (Continued)**

### **Long-term Debt**

At June 30, 2007, the College had approximately \$17.3 million of bonds and notes payable outstanding as compared with \$19.2 million at June 30, 2006. More detailed information about the College's long-term liabilities is presented in the notes to the financial statements.

### **Economic Factors that Will Affect the Future**

As the state of Michigan continues the transformation from a manufacturing based economy, more and more residents are looking to community colleges to provide training for the new economy. Further, as the poor economy continues, students who would otherwise attend a residential four year university are attending community colleges. As a result, the fall 2007 enrollment for Henry Ford Community College is up 10 percent.

Although limited economic growth and increased demand for state resources from federal mandates continue to limit the potential for increases in state funding, the current state budget projects a 2.5 percent increase in state aid for community colleges for 2008. To help make up for prior state aid decreases from the last three years, taxpayers approved a .5 property tax millage that was recognized as revenue beginning in the College's 2005-2006 fiscal year. The additional levy generates an additional \$2.5 million.

As the State attempts to address structural economic problems and set a course for the future, community colleges will play an increasing role in achieving the new agenda. The life sciences have been identified as a new business sector for the State, and Henry Ford Community College will pursue new programs to support the effort. Further, the State is seeking to address the shortage of health career workers, particularly nurses, and has initiated several grant programs. Henry Ford Community College has already secured three state grants that offer accelerated programs to produce nurses and other healthcare professionals more quickly. Henry Ford Community College has demonstrated the willingness and the ability to be a full partner with the State in pursuing a new agenda that will create the economic base necessary to re-establish Michigan as a leader in a global economy.

# School District of the City of Dearborn, Michigan

	Governmental Activities	Business-type Activities (Henry Ford Community College)	Component Unit (Henry Ford Community College Foundation)	Total (Memo Only)
<b>Assets</b>				
<b>Current Assets</b>				
Cash and investments (Note 3)	\$ 11,788,547	\$ 19,798,640	\$ 8,161,698	\$ 39,748,885
Receivables - Net (Note 4):				
Accounts and grants	4,917,984	3,942,192	10,225	8,870,401
Contributions	-	-	50,672	50,672
Taxes	2,323,202	475,695	-	2,798,897
Due from other governmental units	19,228,809	1,214,762	-	20,443,571
Internal balances	469,710	(469,710)	-	-
Inventories	91,216	905,323	-	996,539
Prepaid costs	2,241,828	1,865,135	-	4,106,963
Total current assets	41,061,296	27,732,037	8,222,595	77,015,928
<b>Restricted Assets</b> (Note 11)	2,855,849	-	90,000	2,945,849
<b>Student Loans Receivable</b>	-	4,368	-	4,368
<b>Capital Assets</b> - Net (Note 5)	238,893,736	52,143,316	642,000	291,679,052
Total assets	<u>\$ 282,810,881</u>	<u>\$ 79,879,721</u>	<u>\$ 8,954,595</u>	<u>\$ 371,645,197</u>



**Statement of Net Assets**  
**June 30, 2007**

	Governmental Activities	Business-type Activities (Henry Ford Community College)	Component Unit (Henry Ford Community College Foundation)	Total (Memo Only)
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities</b>				
Accounts payable	\$ 2,990,596	\$ 1,278,409	\$ 2,091	\$ 4,271,096
Scholarships payable	-	-	4,204	4,204
Accrued payroll and other liabilities	18,373,665	3,691,119	-	22,064,784
Deferred revenue (Note 4)	1,931,818	2,675,490	-	4,607,308
Deposits held for others		148,639	-	148,639
Internal balances	587,943	(587,943)	-	-
State aid note payable (Note 8)	6,000,000	-	-	6,000,000
Other liabilities	416,690	-	-	416,690
Current portion of long-term liabilities (Note 7)	12,014,718	3,583,223	-	15,597,941
Total current liabilities	42,315,430	10,788,937	6,295	53,110,662
<b>Long-term Liabilities</b> - Net of current portion (Note 7)	166,195,441	17,769,763	-	183,965,204
Total liabilities	208,510,871	28,558,700	6,295	237,075,866
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	66,713,360	34,812,922	-	101,526,282
Restricted:		-	-	
Debt service	1,303,660	345,534	-	1,649,194
Capital projects	370,962	-	-	370,962
Loans	-	10,458	-	10,458
Temporarily - Component unit	-	-	3,550,981	3,550,981
Permanently - Component unit	-	-	2,683,174	2,683,174
School services	530,069	-	-	530,069
Unrestricted	5,381,959	16,152,107	2,714,145	24,248,211
Total net assets	74,300,010	51,321,021	8,948,300	134,569,331
Total liabilities and net assets	<u>\$ 282,810,881</u>	<u>\$ 79,879,721</u>	<u>\$ 8,954,595</u>	<u>\$ 371,645,197</u>

# School District of the City of Dearborn, Michigan

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants/Contributions
Primary government:			
Governmental activities:			
Instruction	\$ 117,273,576	\$ 11,382,188	\$ 23,017,932
Support services	76,347,817	-	-
Food services	5,008,673	2,036,971	2,915,428
Athletics	1,480,090	125,725	-
Interest on long-term debt	7,839,317	-	-
Loss on disposal of assets	202,046	-	-
Depreciation (unallocated)	6,428,269	-	-
Total governmental activities	214,579,788	13,544,884	25,933,360
Business-type activities - Henry Ford Community College	76,007,290	27,630,321	17,907,460
Component unit - Henry Ford Community College Foundation	643,149	-	773,679
Total	<u>\$ 291,230,227</u>	<u>\$ 41,175,205</u>	<u>\$ 44,614,499</u>
General revenues:			
Taxes:			
Property taxes, levied for general purposes			
Property taxes, levied for debt service			
State aid not restricted to specific purposes			
Interest earnings and other			
Total general revenues			
<b>Change in Net Assets</b>			
<b>Net Assets</b> - Beginning of year as restated (Note 1)			
<b>Net Assets</b> - End of year			

**Statement of Activities**  
**Year Ended June 30, 2007**

Net (Expense) Revenue and Changes in Net Assets			
Component Unit -			
Henry Ford Community College Foundation			
Governmental Activities	Business-type Activities	College Foundation	Total (Memo Only)
\$ (82,873,456)	\$ -	\$ -	\$ (82,873,456)
(76,347,817)	-	-	(76,347,817)
(56,274)	-	-	(56,274)
(1,354,365)	-	-	(1,354,365)
(7,839,317)	-	-	(7,839,317)
(202,046)	-	-	(202,046)
(6,428,269)	-	-	(6,428,269)
(175,101,544)	-	-	(175,101,544)
-	(30,469,509)	-	(30,469,509)
-	-	130,530	130,530
(175,101,544)	(30,469,509)	130,530	(205,440,523)
54,202,089	14,185,475	-	68,387,564
17,188,352	2,142,624	-	19,330,976
112,080,823	17,215,000	-	129,295,823
969,956	1,661,964	1,007,431	3,639,351
184,441,220	35,205,063	1,007,431	220,653,714
9,339,676	4,735,554	1,137,961	15,213,191
64,960,334	46,585,467	7,810,339	119,356,140
<b>\$ 74,300,010</b>	<b>\$ 51,321,021</b>	<b>\$ 8,948,300</b>	<b>\$ 134,569,331</b>

# School District of the City of Dearborn, Michigan

## Governmental Funds Balance Sheet June 30, 2007

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and investments (Note 3)	\$ 10,583,656	\$ 4,060,740	\$ 14,644,396
Property taxes receivable (Note 4)	1,672,897	650,305	2,323,202
Accounts and grants receivable (Note 4)	4,673,201	244,783	4,917,984
Due from other governments (Note 4)	19,228,809	-	19,228,809
Internal balances	469,710	-	469,710
Due from other funds (Note 6)	-	1,249,750	1,249,750
Prepaid costs	1,818,492	423,336	2,241,828
Inventories	-	91,216	91,216
Total assets	<u>\$ 38,446,765</u>	<u>\$ 6,720,130</u>	<u>\$ 45,166,895</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts and contracts payable	\$ 1,586,188	\$ 1,404,408	\$ 2,990,596
Accrued salary, wage, and fringe benefits payable	16,753,800	498,469	17,252,269
Due to other funds (Note 6)	891,557	358,193	1,249,750
State aid note payable (Note 8)	6,000,000	-	6,000,000
Other liabilities	416,690	-	416,690
Internal balances	-	587,943	587,943
Deferred revenue (Note 4)	1,876,643	55,175	1,931,818
Total liabilities	27,524,878	2,904,188	30,429,066
<b>Fund Balances</b>			
Reserved for inventories and prepaid costs	1,818,492	514,552	2,333,044
Reserved for debt service	-	1,303,660	1,303,660
Reserved for capital projects	-	1,558,877	1,558,877
Reserved for school services	-	438,853	438,853
Unreserved	9,103,395	-	9,103,395
Total fund balances	<u>10,921,887</u>	<u>3,815,942</u>	<u>14,737,829</u>
Total liabilities and fund balances	<u>\$ 38,446,765</u>	<u>\$ 6,720,130</u>	<u>\$ 45,166,895</u>

# School District of the City of Dearborn, Michigan

## **Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2007**

**Fund Balance - Total Governmental Funds** \$ 14,737,829

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds:

Capital assets	\$ 283,156,231	
Accumulated depreciation	<u>(44,262,495)</u>	238,893,736

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:

Bonds and notes payable including premium/discount	(172,670,231)	
Compensated absences and severance agreements	(3,283,676)	
Risk management and claims	<u>(2,256,252)</u>	(178,210,159)

Accrued interest payable is not included as a liability in governmental funds	<u>(1,121,396)</u>
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**Net Assets - Governmental Activities** \$ 74,300,010

# School District of the City of Dearborn, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2007

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>			
Local:			
Property taxes	\$ 54,202,089	\$ 17,188,352	\$ 71,390,441
Investment income	448,894	521,062	969,956
Tuition and other local revenue	1,790,294	2,183,503	3,973,797
Food service	-	2,036,971	2,036,971
Athletic gate receipts	-	125,725	125,725
Total local	56,441,277	22,055,613	78,496,890
State	117,408,388	3,323,535	120,731,923
Federal	15,349,650	2,915,428	18,265,078
Interdistrict - Incoming transfers from other districts	364,299	7,044,092	7,408,391
Total revenue	189,563,614	35,338,668	224,902,282
<b>Expenditures</b>			
Current:			
Instruction	108,387,679	5,425,665	113,813,344
Support services	73,502,217	4,709,478	78,211,695
Food service	-	5,008,673	5,008,673
Athletics	-	1,480,090	1,480,090
Capital outlay	1,279,204	11,102,211	12,381,415
Debt service:			
Principal payments	-	10,634,840	10,634,840
Interest and other	-	7,418,898	7,418,898
Fees and other bond costs	-	761,314	761,314
Total expenditures	183,169,100	46,541,169	229,710,269
<b>Excess of Revenue Over (Under) Expenditures</b>	6,394,514	(11,202,501)	(4,807,987)
<b>Other Financing Sources (Uses)</b>			
Long-term debt issued	-	4,615,000	4,615,000
Proceeds from bond refunding	-	90,885,000	90,885,000
Premium on long-term debt issued	-	5,018,657	5,018,657
Payment to bond escrow agent	-	(96,283,175)	(96,283,175)
Proceeds on sale of fixed assets	891,732	-	891,732
Transfers in (Note 6)	1,563,853	7,426,512	8,990,365
Transfers out (Note 6)	(7,322,780)	(1,667,585)	(8,990,365)
Total other financing sources (uses)	(4,867,195)	9,994,409	5,127,214
<b>Net Change in Fund Balances</b>	1,527,319	(1,208,092)	319,227
<b>Fund Balances - Beginning of year</b>	9,394,568	5,024,034	14,418,602
<b>Fund Balances - End of year</b>	<b>\$ 10,921,887</b>	<b>\$ 3,815,942</b>	<b>\$ 14,737,829</b>

# School District of the City of Dearborn, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2007**

**Net Change in Fund Balances - Total Governmental Funds** \$ 319,227

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (6,428,269)	
Loss on sale of fixed assets	(202,046)	
Capitalized capital outlay	<u>7,501,355</u>	871,040

Governmental funds report proceeds from sale of assets as revenue; in the statement of activities, these are recorded net of the carrying value of the disposed assets (891,732)

Bond issuance is reported as another financing source in the governmental funds; it is not revenue in the statement of activities (95,500,000)

Underwriter's premiums and deferred charges reported as revenues and expenditures in the funds and amortized in the statement of activities 93,197

Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid 237,216

Repayment of bond and note principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 101,909,840

Early retirement incentives are recorded in the statement of activities when incurred; they are not reported in the governmental funds until paid 1,255,380

Compensated absences, as well as estimated self-insured liability claims, are recorded when earned or incurred in the statement of activities. In the current year, certain liabilities were reduced by the collective bargaining agreement 2,028,326

Revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end (982,818)

**Change in Net Assets of Governmental Activities** \$ 9,339,676

# School District of the City of Dearborn, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2007

	Henry Ford Community College	Component Unit - Henry Ford Community College Foundation
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 3)	\$ 19,798,640	\$ 1,472,655
Investments (Note 3)	-	6,689,043
Receivables - Net (Note 4):		
Accounts and grants	3,942,192	10,225
Contributions	-	50,672
Taxes	475,695	-
Due from other governmental units	1,214,762	-
Due to other funds (Note 6)	(469,710)	-
Inventories	905,323	-
Prepaid costs	1,865,135	-
Total current assets	27,732,037	8,222,595
<b>Restricted Assets</b> (Note 11)	-	90,000
<b>Student Loans Receivable</b>	4,368	-
<b>Capital Assets</b> - Net (Note 5)	52,143,316	642,000
Total assets	<b>\$ 79,879,721</b>	<b>\$ 8,954,595</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 1,278,409	\$ 2,091
Scholarships payable	-	4,204
Accrued payroll and other liabilities	3,691,119	-
Deferred revenue	2,675,490	-
Due to other funds (Note 6)	(587,943)	-
Deposits held for others	148,639	-
Current portion of long-term liabilities (Note 7)	3,583,223	-
Total current liabilities	10,788,937	6,295
<b>Long-term Liabilities</b> - Net of current portion (Note 7)	17,769,763	-
Total liabilities	28,558,700	6,295
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	34,812,922	-
Restricted:		
Debt service	345,534	-
Loans	10,458	-
Temporarily - Component unit	-	3,550,981
Permanently - Component unit	-	2,683,174
Unrestricted	16,152,107	2,714,145
Total net assets	51,321,021	8,948,300
Total liabilities and net assets	<b>\$ 79,879,721</b>	<b>\$ 8,954,595</b>



# School District of the City of Dearborn, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2007

	Henry Ford Community College	Component Unit - Henry Ford Community College Foundation
<b>Operating Revenue</b>		
Tuition and fees - Net of scholarship allowance of \$13,177,179	\$ 20,443,131	\$ -
Federal grants	14,707,400	-
State and local grants and gifts	3,200,060	534,155
Auxiliary enterprises	7,187,190	-
Miscellaneous	1,254,519	239,524
	<u>46,792,300</u>	<u>773,679</u>
Total operating revenue	46,792,300	773,679
<b>Operating Expenses</b>		
Instruction	32,701,139	-
Instructional support	6,726,024	124,745
Student services	8,594,279	278,880
Institutional administration	9,029,617	239,524
Information technology	3,729,002	-
Physical plant operations	5,771,736	-
Auxiliary enterprises	6,308,410	-
Repairs and maintenance	89,807	-
Depreciation expense	3,057,276	-
	<u>76,007,290</u>	<u>643,149</u>
Total operating expenses	76,007,290	643,149
<b>Operating (Loss) Income</b>	(29,214,990)	130,530
<b>Nonoperating Revenue (Expenses)</b>		
State appropriations	17,215,000	-
Property taxes	16,328,099	-
Investment income	1,189,672	1,007,431
Interest on capital asset-related debt expenses	(782,692)	-
Other nonoperating revenue	465	-
	<u>33,950,544</u>	<u>1,007,431</u>
Net nonoperating revenue	33,950,544	1,007,431
<b>Increase in Net Assets</b>	4,735,554	1,137,961
<b>Net Assets - Beginning of year</b>	46,585,467	7,810,339
<b>Net Assets - End of year</b>	<u><u>\$ 51,321,021</u></u>	<u><u>\$ 8,948,300</u></u>

# School District of the City of Dearborn, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2007

	Henry Ford Community College	Component Unit - Henry Ford Community College Foundation
<b>Cash Flows from Operating Activities</b>		
Tuition and fees	\$ 20,689,147	\$ -
Grants, contracts, and gifts	18,404,127	353,194
Payments to suppliers	(34,133,474)	(248,180)
Payments to employees	(41,374,234)	-
Payments to educational scholarship and special program funds	-	(632,639)
Collection of loans from students - Net of loans issued	18,579	-
Auxiliary enterprise charges	7,187,190	-
Other	1,254,518	339,899
Net cash used in operating activities	(27,954,147)	(187,726)
<b>Cash Flows from Noncapital Financing Activities</b>		
Local property taxes	14,089,831	-
William D. Ford direct lending receipts	21,426,889	-
William D. Ford direct lending disbursements	(21,339,622)	-
State appropriations	19,600,364	-
Net cash provided by noncapital financing activities	33,777,462	-
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchase of capital assets	(1,487,771)	-
Principal paid on capital debt	(1,868,492)	-
Property tax collections	2,142,624	-
Permanently restricted contributions	-	59,734
Interest paid on capital debt	(790,906)	-
Net cash (used in) provided by capital and related financing activities	(2,004,545)	59,734
<b>Cash Flows from Investing Activities</b>		
Interest on investments	1,189,673	398,666
Purchase of investments	-	(1,587,790)
Proceeds from sale of investments	-	1,870,130
Net cash provided by investing activities	1,189,673	681,006
<b>Net Increase in Cash and Cash Equivalents</b>	5,008,443	553,014
<b>Cash and Cash Equivalents - Beginning of year</b>	14,790,197	919,641
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 19,798,640</u>	<u>\$ 1,472,655</u>

# School District of the City of Dearborn, Michigan

## Proprietary Funds Statement of Cash Flows (Continued) Year Ended June 30, 2007

	Henry Ford Community College	Component Unit - Henry Ford Community College Foundation
<b>Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities</b>		
Operating (loss) income	\$ (29,214,990)	\$ 130,530
Adjustments to reconcile operating (loss) income to net cash from operating activities:		
Depreciation	3,057,276	-
Permanently restricted contributions	-	(59,734)
Bad debt expense	1,115,012	-
(Increase) decrease in assets:		
Accounts receivable	(1,139,344)	14,020
Contributions receivable	-	19,992
Federal and state grant receivable	288,100	-
Inventories	71,709	-
Prepaid assets and other current assets	(844,599)	-
Due from other funds of DPS	70,575	-
Loans to students	18,579	-
Increase (decrease) in liabilities:		
Accounts payable	(102,612)	(8,656)
Scholarships payable	-	(283,878)
Accrued payroll and other compensation	(2,448,209)	-
Other accrued liabilities	707,156	-
Deposits	4,612	-
Government grants refundable	(16,327)	-
Unearned tuition and fees	478,915	-
<b>Net cash used in operating activities</b>	<b>\$ (27,954,147)</b>	<b>\$ (187,726)</b>

There were no noncash capital and noncapital financing activities or investing activities for the year ended June 30, 2007.

# School District of the City of Dearborn, Michigan

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## Fiduciary Fund Statement of Fiduciary Assets and Liabilities June 30, 2007

	Student Activities <u>Agency Fund</u>
<b>Assets</b> - Cash and investments (Note 3)	<b>\$ 123,809</b>
<b>Liabilities</b> - Due to student/recipient groups	<b>\$ 123,809</b>

# **School District of the City of Dearborn, Michigan**

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## **Notes to Financial Statements June 30, 2007**

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the School District of the City of Dearborn, Michigan (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The School District includes the operations related to preschool through grade twelve (the "P-12") and Henry Ford Community College (the "College"). The following is a summary of the significant accounting policies used by the School District:

#### **Reporting Entity**

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District.

**Component Unit** - Henry Ford Community College Foundation (the "Foundation") was organized to develop fund-raising programs and events and administer the resulting assets, in order to provide scholarships to students and other financial assistance to Henry Ford Community College's special programs and department projects. The Foundation is discretely reported as part of the School District's reporting entity (although it is legally separate and governed by its own board of directors) because its sole purpose is to provide support to the College. Audited financial statements of the Foundation may be obtained by contacting the Foundation at 5101 Evergreen Road, Dearborn, Michigan 48128.

#### **District-wide and Fund Financial Statements**

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the School District and its component unit. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All P-12 activities are classified as governmental-type activities and all College and component unit activities are classified as business-type activities.

# School District of the City of Dearborn, Michigan

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## Notes to Financial Statements June 30, 2007

### Note I - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**District-wide Financial Statements** - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting issued prior to November 30, 1989 are generally followed to the extent that those standards do not conflict with guidance of the Governmental Accounting Standards Board. The School District has elected not to follow private sector guidance issued after November 30, 1989 for its proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements. Exceptions to this general rule are charges between business-type and governmental activities, where eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

# **School District of the City of Dearborn, Michigan**

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## **Notes to Financial Statements June 30, 2007**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Restatement of July 1, 2006 Net Assets** - In previous years, the School District capitalized various items to construction in progress that upon final analysis were either maintenance in nature or below the capitalization policy of the School District. Accordingly, the School District has restated its opening net asset balance at July 1, 2006 by \$10,120,975 to correct this item.

#### **Fund Financial Statements**

Governmental funds are those funds through which P-12 functions are financed. All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the P-12 considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other governmental fund revenue items are considered to be available only when cash is received by the P-12.

# School District of the City of Dearborn, Michigan

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## Notes to Financial Statements June 30, 2007

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The proprietary funds are where the College and component unit functions are reported and the fiduciary funds are used to account for assets held by the P-12 in a trustee capacity or as an agent. The proprietary funds and fiduciary funds statements are accounted for using an economic resources measurement focus and the accrual basis of accounting. As discussed above, this means that private sector standards of accounting issued prior to November 30, 1989 generally are followed to the extent that those standards do not conflict with guidance of the Governmental Accounting Standards Board. The School District has elected not to follow private sector guidance issued after November 30, 1989 for its proprietary funds. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. The College's policy for defining operating activities as reported on the statement of revenues, expenses, and changes in net assets is to report those activities that generally result from exchange transactions, such as payments received for providing services and payments made for services or goods received. Nearly all the College's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues as defined by GASB Statement No. 34, including state appropriations, property taxes, grants, and investment income.

The School District reports the following major governmental fund:

**General Fund** - The General Fund is the P-12's primary operating fund. It accounts for all financial resources of the P-12, except those required to be accounted for in another fund.

Additionally, the School District reports the following fund types:

**Special Revenue Funds** - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified P-12 purposes. The Special Revenue Funds maintained by the P-12 include the Cafeteria Fund, Athletic Fund, Adult Education Fund, and Center Program. Any operating deficit generated by these activities is the responsibility of the General Fund.

**Debt Service Fund** - The Debt Service Fund is used to account for the accumulation of resources for the funding and payment of principal, interest, and related costs on long-term debt for the P-12.

**Capital Projects Funds** - Capital Projects Funds are used to account for the receipt and disbursement of proceeds from bond issues or other revenues specifically designated for certain capital expenditures of the P-12.



# School District of the City of Dearborn, Michigan

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## Notes to Financial Statements June 30, 2007

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Fiduciary Funds** - Fiduciary funds are used to account for assets held by the P-12 in a trustee capacity or as an agent. Fiduciary funds net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature and do not involve measurement of results of operations. The P-12 presently maintains a Student Activities Fund to record the transactions of student and parent groups for school and school-related purposes. The funds are segregated and held in trust for the students and parents.

#### **Assets, Liabilities, and Net Assets or Equity**

**Cash and Investments** - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the district-wide financial statements as internal balances.

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are billed on July 1 for approximately 50 percent of the taxes and on December 1 for the remainder of the property taxes. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

Accounts and grants receivable consist of amounts due from the State of Michigan for state appropriations and due from federal, state, and local governments in connection with the reimbursement of allowable expenditures made pursuant to the School District's grants and contracts. Accounts receivable also include tuition and fee charges to students and other third parties and auxiliary enterprise services provided to students, faculty, and staff.

**Inventories and Prepaid Costs** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture commodities inventory received by the Food Services Fund is recorded as inventory and deferred revenue until used. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

# School District of the City of Dearborn, Michigan

## Notes to Financial Statements June 30, 2007

### Note I - Summary of Significant Accounting Policies (Continued)

**Interfund Balances and Transfers** - Interfund transfers are used to move revenue from the fund that collects them to the fund that expends them. This primarily consists of receipts transferred to the Debt Service Fund as debt service payments become due. The amount due as of June 30, 2007 but not transferred is recorded as an interfund balance.

**Restricted Assets** - The unspent bond proceeds and related interest of the Capital Projects Funds require amounts to be set aside for construction. Cash held in Debt Service Funds is restricted for bond repayment. These amounts have been classified as restricted assets.

**Capital Assets** - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental or business-type activities column in the district-wide financial statements. Capital assets are defined by the P-12 as assets with an initial individual cost of more than \$15,000 and an estimated useful life in excess of one year. The College's capitalization policy includes all items with a cost of \$1,000 or more, and an estimated useful life of greater than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings	39 years
Buildings improvements	25 years
Land improvements	15 years
Equipment, vehicles, and furniture	7 years

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts.

# School District of the City of Dearborn, Michigan

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## Notes to Financial Statements June 30, 2007

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Compensated Absences (Vacation and Sick Leave) and Early Retirement Benefits** - The liability for compensated absences reported in the district-wide and proprietary fund statements consists of earned but unused accumulated vacation and sick leave benefits and severance agreements. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments at normal retirement age and other employees who are expected to become eligible in the future to receive such payments upon normal retirement are included.

A liability for early termination benefits is reported in the district-wide statements at the discounted present value of the expected future benefit payments using a discount rate of 5 percent. The early termination benefits consist of early retirement incentive cash payments provided to approximately 100 employees over a three-year period. The cost of the obligation is reported in long-term debt.

**Long-term Obligations** - In the district-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and bond issuance costs. Issuance costs are amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

# School District of the City of Dearborn, Michigan

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## Notes to Financial Statements June 30, 2007

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Scholarship Discounts and Allowances** - Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the proprietary funds statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs are recorded as either operating or nonoperating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

**College Deferred Revenue** - Revenue received prior to year end that is related to the next fiscal period is recorded as deferred revenue. This includes \$1,291,968 for the fall semester and \$765,173 of unearned revenue on the summer semester, which began in July 2007 and ends in August 2007.

### Note 2 - Stewardship, Compliance, and Accountability

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General, proprietary, and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. The budget was amended during the year in a legally permissible manner. The School District's other financing uses were greater than its budgeted amount for the year ended June 30, 2007 by an amount greater than what Michigan law permits.

Encumbrance accounting is employed in governmental funds. Amounts encumbered for purchase orders, contracts, etc. are not reported as reservations of fund balance because they are considered lapsed at year end and reappropriated in the following budget year.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the School District incurred expenditures in excess of budgeted amounts related to other financing uses.

# School District of the City of Dearborn, Michigan

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## Notes to Financial Statements June 30, 2007

### **Note 2 - Stewardship, Compliance, and Accountability (Continued)**

**Fund Deficits** - The School District has an accumulated fund balance deficit in the Center Program Fund.

**Capital Projects Fund Compliance** - The Capital Projects Funds includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of §1351a of the State of Michigan's School Code.

### **Note 3 - Deposits and Investments**

State statutes (and the School District's investment policy) authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The School District has designated four banks and credit unions for the deposit of its funds.

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the School District's deposits for custodial credit risk. At year end, the School District's deposit balance of \$22,029,031 had \$21,429,031 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# School District of the City of Dearborn, Michigan

## Notes to Financial Statements June 30, 2007

### Note 3 - Deposits and Investments (Continued)

**Custodial Credit Risk of Investments** - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's policy for custodial credit risk states that custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law, and by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the School District will do business using the criteria established in the investment policy. The School District does not have investments with custodial credit risk.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. The School District's policy minimizes interest rate risk by requiring the structuring of the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools; and limiting the average maturity in accordance with the School District's cash requirements.

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

At year end, the maturities of investments and the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investments	Fair Value	Maturities	Rating	Rating Organization
Comerica Governmental Cash Investment Fund	\$ 13,482,144	N/A	A1/P1/F1	N/A
JP Morgan Michigan School District Money Market Fund	<u>1,469,312</u>	N/A	Not rated	Not rated
Total investments	<u>\$ 14,951,456</u>			

**Concentration of Credit Risk** - The School District places no limit on the amount the School District may invest in any one issuer. The School District's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. All of the School District's investments are invested with certain investment pools.

# School District of the City of Dearborn, Michigan

## Notes to Financial Statements June 30, 2007

### Note 3 - Deposits and Investments (Continued)

**Foreign Currency Risk** - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the School District's policy prohibit investment in foreign currency.

**Component Unit** - Investments are presented in the financial statements at fair market value and are comprised of various mutual funds and trusts that hold equities, real estate, and fixed income securities. Unrealized gains or losses are reported as changes in net assets in the statement of activities and changes in net assets. Realized gains or losses on investments are recorded upon sale and are determined based on specific identification.

### Note 4 - Receivables and Deferred Revenue

Receivables as of year end for the School District's individual major funds and the nonmajor funds, in the aggregate, and proprietary funds, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Other Nonmajor Governmental Funds	Proprietary Fund	Component Unit	Total
Receivables:					
Taxes	\$ 1,672,897	\$ 650,305	\$ 475,695	\$ -	\$ 2,798,897
Accounts, grants, and other	4,673,201	244,783	4,842,192	60,897	9,821,073
Intergovernmental	19,228,809	-	1,214,762	-	20,443,571
Less allowance for uncollectibles	-	-	(900,000)	-	(900,000)
Net receivables	<u>\$ 25,574,907</u>	<u>\$ 895,088</u>	<u>\$ 5,632,649</u>	<u>\$ 60,897</u>	<u>\$ 32,163,541</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental and proprietary funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Governmental activities - Tuition and state grant monies received prior to meeting all eligibility requirements	\$ -	\$ 1,931,818
Business-type activities - Tuition and grant revenue	-	2,675,490
Total	<u>\$ -</u>	<u>\$ 4,607,308</u>

# School District of the City of Dearborn, Michigan

## Notes to Financial Statements June 30, 2007

### Note 5 - Capital Assets

A summary of changes in the capital assets of governmental activities follows:

	Balance July 1, 2006 *	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2007
Capital assets not being depreciated:					
Land	\$ 10,566,192	\$ -	\$ 1,966,304	\$ 1,108,632	\$ 11,423,864
Construction in progress	145,942,058	(145,942,058)	-	-	-
Subtotal	156,508,250	(145,942,058)	1,966,304	1,108,632	11,423,864
Capital assets being depreciated:					
Buildings	44,514,230	51,149,851	-	(13,035,993)	108,700,074
Building improvements	67,889,597	71,394,796	-	13,385,464	125,898,929
Buses and other vehicles	8,253,929	-	875,763	402,498	8,727,194
Equipment and other	-	23,397,411	4,659,288	(349,471)	28,406,170
Subtotal	120,657,756	145,942,058	5,535,051	402,498	271,732,367
Accumulated depreciation:					
Buildings	21,884,355	-	1,145,257	35,649	22,993,963
Building improvements	11,428,369	-	1,908,132	36,534	13,299,967
Buses and other vehicles	4,910,500	-	774,562	388,998	5,296,064
Equipment and other	-	-	2,600,318	(72,183)	2,672,501
Subtotal	38,223,224	-	6,428,269	388,998	44,262,495
Net capital assets being depreciated	82,434,532	145,942,058	(893,218)	13,500	227,469,872
Net governmental capital assets	<u>\$ 238,942,782</u>	<u>\$ -</u>	<u>\$ 1,073,086</u>	<u>\$ 1,122,132</u>	<u>\$ 238,893,736</u>

Depreciation for the fiscal year ended June 30, 2007 amounted to \$6,428,269 for governmental capital assets. The P-12 determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

\* See Note 1 regarding the restatement of the July 1, 2006 balance.



# School District of the City of Dearborn, Michigan

## Notes to Financial Statements June 30, 2007

### Note 5 - Capital Assets (Continued)

A summary of changes in the capital assets of business-type activities follows:

	Balance July 1, 2006	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2007
Capital assets not being depreciated:					
Land	\$ 1,961,038	\$ -	\$ -	\$ -	\$ 1,961,038
Construction in progress	207,274	-	240,005	-	447,279
Subtotal	2,168,312	-	240,005	-	2,408,317
Capital assets being depreciated:					
Land improvements	89,153	-	1,500	-	90,653
Buildings	74,633,880	-	-	-	74,633,880
Building improvements	2,440,938	-	46,307	-	2,487,245
Furniture and library books	862,113	-	302,097	-	1,164,210
Equipment and other vehicles	10,517,442	-	897,862	-	11,415,304
Subtotal	88,543,526	-	1,247,766	-	89,791,292
Accumulated depreciation:					
Land improvements	12,069	-	5,994	-	18,063
Building	28,037,786	-	1,594,029	-	29,631,815
Building improvements	1,414,891	-	203,799	-	1,618,690
Furniture and library books	522,341	-	111,566	-	633,907
Equipment and other vehicles	7,011,930	-	1,141,888	-	8,153,818
Subtotal	36,999,017	-	3,057,276	-	40,056,293
Net capital assets being depreciated	51,544,509	-	(1,809,510)	-	49,734,999
Net business-type activity assets	\$ 53,712,821	\$ -	\$ (1,569,505)	\$ -	\$ 52,143,316

The component unit, Henry Ford Community College Foundation, has an art collection appraised at \$642,000.

Depreciation for the fiscal year ended June 30, 2007 amounted to \$3,057,276 for business-type capital assets.

# School District of the City of Dearborn, Michigan

## Notes to Financial Statements June 30, 2007

### Note 5 - Capital Assets (Continued)

**Construction Commitments** - The School District has active construction projects at year end. At year end, the School District's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
2002 Capital Projects Building and Site Series II	\$ 41,541,191	\$ 1,750,151

### Note 6 - Interfund Receivables, Payables, and Transfers

The following are the interfund receivables at June 30, 2007:

Fund Due To	Fund Due From		
	General Fund	Other Nonmajor Governmental Funds	Total
Nonmajor fund	\$ 891,557	\$ 358,193	\$ 1,249,750

Interfund balances represent routine and temporary cash flow assistance from one fund to another until amounts are transferred from fund investment accounts.

The following are the interfund transfers for the year ended June 30, 2007:

Fund Transferred From	Fund Transferred To	Amount
General Fund	Other nonmajor governmental funds	\$ 7,322,780
Other nonmajor governmental funds	General Fund	1,563,853
Other nonmajor governmental funds	Other nonmajor governmental funds	103,732
Total transfers		\$ 8,990,365

# School District of the City of Dearborn, Michigan

## Notes to Financial Statements June 30, 2007

### Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

The transfers from the General Fund subsidized operations in the Athletics and General Building and Site Maintenance Funds.

The transfer from the other nonmajor governmental funds to the General Fund is for reimbursement of current year indirect costs.

The transfer from the 2007 Energy Bonds Fund to the Debt Service Fund is to reimburse expenditures made on behalf of the 2007 Energy Bonds Fund.

### Note 7 - Long-term Obligations

Long-term obligations of the School District and changes therein for the year ended June 30, 2007 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds	\$ 176,900,319	\$ 95,500,000	\$ 101,667,622	\$ 170,732,697	\$ 10,194,297
Less deferred amounts:					
Issuance premiums	976,460	5,018,657	451,734	5,543,383	451,734
Cost of issuance and underwriter's discount	(202,951)	(5,008,175)	(348,055)	(4,863,071)	(348,055)
Total bonds payable	177,673,828	95,510,482	101,771,301	171,413,009	10,297,976
Installment purchase agreements	1,499,440	-	242,218	1,257,222	252,222
Severance payable	3,988,524	-	1,255,380	2,733,144	1,464,520
Compensated absences	1,601,512	-	1,050,980	550,532	-
Risk management and claims (Note 10)	3,233,598	10,830,012	11,807,358	2,256,252	-
Total governmental activities	<u>\$ 187,996,902</u>	<u>\$ 106,340,494</u>	<u>\$ 116,127,237</u>	<u>\$ 178,210,159</u>	<u>\$ 12,014,718</u>
Business-type activities:					
Bonds	\$ 19,380,829	\$ -	\$ 1,902,335	\$ 17,478,494	\$ 1,990,659
Less deferred amounts:					
Bond refunding charge	(268,919)	-	(34,848)	(234,071)	-
Issuance discounts	(58,239)	-	(6,600)	(51,639)	-
Issuance premiums	303,663	-	39,889	263,774	-
Cost of issuance and underwriter's discount	(144,405)	-	(18,240)	(126,165)	-
Total bonds payable	19,212,929	-	1,882,536	17,330,393	1,990,659
Notes payable	13,287	-	10,583	2,704	2,704
Severance and other obligations	5,261,118	-	2,153,895	3,107,223	677,194
Risk management (Note 10)	809,178	4,404,918	4,301,430	912,666	912,666
Total business-type activities	<u>\$ 25,296,512</u>	<u>\$ 4,404,918</u>	<u>\$ 8,348,444</u>	<u>\$ 21,352,986</u>	<u>\$ 3,583,223</u>

# School District of the City of Dearborn, Michigan

## Notes to Financial Statements June 30, 2007

### Note 7 - Long-term Obligations (Continued)

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 10,446,519	\$ 7,507,853	\$ 17,954,372	\$ 1,993,363	\$ 714,853	\$ 2,708,216
2009	10,763,455	7,141,006	17,904,461	2,076,509	653,316	2,729,825
2010	11,142,998	6,750,804	17,893,802	2,171,958	585,393	2,757,351
2011	11,543,341	6,312,063	17,855,404	2,286,613	499,331	2,785,944
2012	12,028,545	5,804,656	17,833,201	2,401,408	407,989	2,809,397
2013-2017	61,355,061	20,478,821	81,833,882	6,551,347	587,209	7,138,556
2018-2022	53,310,000	7,337,476	60,647,476	-	-	-
2023-2024	1,400,000	105,000	1,505,000	-	-	-
Total	<u>\$ 171,989,919</u>	<u>\$ 61,437,679</u>	<u>\$ 233,427,598</u>	<u>\$ 17,481,198</u>	<u>\$ 3,448,091</u>	<u>\$ 20,929,289</u>

General obligation bonds and notes payable and installment purchase agreements consist of the following:

	Allocated to	
	Governmental Activities	Business-type Activities
\$11,585,000 refunding bonds, due in annual installments of \$880,000 to \$1,090,000 through May 1, 2014, interest at 4.25 percent to 4.90 percent	\$ 6,528,600	\$ 491,400
\$1,500,000 Michigan Municipal Bond Authority Bonds, due in annual installments of \$75,000 to \$120,000 through April 1, 2017, interest at 4.00 percent to 4.95 percent	-	985,000
\$5,020,000 serial bonds, due in annual installments of \$100,000 to \$625,000 through May 1, 2016, interest at 3.65 percent to 5.00 percent	-	4,350,000

# School District of the City of Dearborn, Michigan

## Notes to Financial Statements June 30, 2007

### Note 7 - Long-term Obligations (Continued)

	Allocated to	
	Governmental Activities	Business-type Activities
\$97,680,000 serial bonds, due in annual installments of \$4,025,000 to \$4,425,000 through May 1, 2012, interest at 3.50 percent to 5.00 percent	\$ 21,050,000	\$ -
\$44,305,000 serial bonds, due in annual installments of \$900,000 to \$2,475,000 through May 1, 2013, interest at 3.25 percent to 4.125 percent	10,225,000	-
\$49,280,000 refunding bonds, due in annual installments of \$4,370,000 to \$4,880,000 through May 1, 2014, interest at 3.00 percent to 5.00 percent	22,562,547	9,702,094
\$7,020,000 refunding bonds, due in annual installments of \$245,000 to \$1,100,000 through May 1, 2014, interest at 2.70 percent to 4.00 percent	2,410,000	1,950,000
\$8,385,000 serial bonds, due in annual installments of \$200,000 to \$700,000 through May 1, 2024, interest at 3.375 percent to 5.00 percent	8,000,000	-
\$3,575,000 serial bonds, due in a lump-sum payment of \$3,575,000 on May 1, 2014	3,575,000	-
\$881,550 serial bonds, due in a lump-sum payment of \$881,550 on August 28, 2016	881,550	-
\$4,615,000 energy limited tax general obligation bonds, due in annual installments of \$380,000 to \$550,000 through May 1, 2017, interest at 4.00 percent to 5.50 percent	4,615,000	
\$90,885,000 refunding bonds, due in annual installments of \$4,650,000 to \$10,145,000 through May 1, 2022, interest at 4.125 percent to 5.00 percent	90,885,000	-
Total bonded debt	<u>\$ 170,732,697</u>	<u>\$ 17,478,494</u>

# School District of the City of Dearborn, Michigan

## Notes to Financial Statements June 30, 2007

### Note 7 - Long-term Obligations (Continued)

	Allocated to	
	Governmental Activities	Business-type Activities
\$2,200,000 energy conservation installment purchase agreement, due in annual installments of \$225,000 to \$270,000 through May 1, 2012, interest at 4.5 percent	\$ 1,230,000	\$ -
\$136,094 security system equipment installment purchase agreement, due in an annual installment \$27,222 on June 1, 2008, interest at 2.77 percent	27,222	-
\$30,942 bank note to finance equipment, due in annual installments of \$907 through 2008, plus interest at 3.49 percent	-	2,704
Total notes payable and installment purchase agreements	<u>\$ 1,257,222</u>	<u>\$ 2,704</u>

**Advance and Current Refundings** - During the year, the School District issued \$90,885,000 in general obligation bonds with an average interest rate of 4.6 percent. The proceeds of these bonds were used to refund \$91,275,000 of outstanding 2002 Series bonds with an average interest rate of 5 percent. The net proceeds of \$95,169,175 (after payment of \$734,482 in underwriting fees, insurance, and other issuance costs) plus an additional \$1,114,000 of 2002 Series Debt Fund monies were used to purchase U.S. government securities and were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the School District's long-term obligations. The advance refunding reduced total debt service payments by approximately \$4,055,000, which represents an economic gain of approximately \$2,901,000.

In prior years, the School District defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2007, \$137,701,000 of bonds outstanding are considered defeased.

# School District of the City of Dearborn, Michigan

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## Notes to Financial Statements June 30, 2007

### **Note 8 - State Aid Note Payable**

On June 7, 2007, the School District borrowed \$6,000,000 in a state aid anticipation note. The note bears interest at 4.25 percent and is due September 21, 2007.

### **Note 9 - Retirement Plan**

#### **Defined Benefit Pension Plan**

**Plan Description** - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer, defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for MPERS. The report may be obtained by writing to MPERS at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909-7671. Effective January 1, 1998, certain employees of the College can, at their option, elect to discontinue participation in MPERS and join another, privately administered, retirement plan.

**Funding Policy** - Employer contributions to MPERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree healthcare benefit amounts on a cash disbursement basis.

The pension benefit rate totals 16.34 percent for the period from July 1, 2006 through September 30, 2006 and 17.74 percent for the period from October 1, 2006 through June 30, 2007 of the covered payroll to the plan. MPERS credits of \$1,285,100 and \$3,901,731 were issued to the College and to P-12, respectively, on June 6, 2007 due to a change in actuarial assumptions. These credits are being used to reduce contributions to the plan in July and August 2007. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The District's contributions (net of the MPERS credit for 2007) to the MPERS plan for the years ended June 30, 2007, 2006, and 2005 were \$26,542,375, \$24,688,701, and \$22,177,022, respectively.

# School District of the City of Dearborn, Michigan

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## Notes to Financial Statements June 30, 2007

### Note 9 - Retirement Plan (Continued)

**Postemployment Benefits** - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for post-employment healthcare benefits are included as part of the School District's total contribution to the MPSERS plan discussed above.

#### Defined Contribution Plan

Existing professional MPSERS members and new professional employees of the College may elect to participate in an optional retirement program (ORP) in lieu of participating in the MPSERS plan. The ORP plan is a defined contribution plan affiliated with the Teachers Insurance and Annuity Association and the College Retirement Equities Fund (TIAA-CREF). Under the ORP, the percentage contributed by the College is 12 percent for the years ended June 30, 2007 and 2006. The payroll for the College's employees covered by the optional plan was \$4.4 million and \$4.1 million for fiscal years 2007 and 2006, respectively. College contributions were made in the amount required by the plan and totaled \$530,871 and \$492,331 for fiscal years 2007 and 2006, respectively. Under the ORP plan, employees may contribute 4 percent of gross wages in addition to the College's contribution.

### Note 10 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The P-12 participates in the Metropolitan Association for Improved School Legislation (risk pool) for claims relating to property coverage and general liability; the School District is uninsured for medical, dental, vision, and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.



# School District of the City of Dearborn, Michigan

## Notes to Financial Statements June 30, 2007

### Note 10 - Risk Management (Continued)

For risk retention situations (other than commercial coverage or risk-sharing pools), the School District estimates the liability for medical, dental, workers' compensation, and vision claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the district-wide statements. Changes in the estimated liability for the past two fiscal years were as follows:

	<u>2007</u>	<u>2006</u>
Estimated liability - Beginning of year	\$ 4,042,776	\$ 2,578,723
Estimated claims incurred - Including changes in estimates	15,362,903	15,693,549
Claim payments	<u>(16,236,761)</u>	<u>(14,229,496)</u>
Estimated liability - End of year	<u>\$ 3,168,918</u>	<u>\$ 4,042,776</u>

**Property and General Liability** - The P-12 and the College have limited-risk management programs for property coverage and general liability. Risk management pool assets are held and administered by the Metropolitan Association for Improved School Legislation for the P-12 and by the Michigan Community College Risk Management Authority for the College. Premiums are paid by the P-12's General Fund and are available to pay claims, claim reserves, and administrative costs of the program. Premiums are paid by the College and are available to pay claims, claim reserves, and administration costs of the program up to a maximum of \$15,000 per claim or up to \$45,000 per year. During fiscal year 2007, approximately \$599,000 and \$239,000 was paid in premiums by the P-12 and the College, respectively. An excess insurance policy covers individual claims in excess of \$1,000 for the P-12 and \$10,000 for the College.

**Medical** - The self-insured medical plan covers approximately 50 percent of the School District's employees and their dependents. Claims are funded by the School District and paid by the plan administrator up to a maximum of \$150,000 per eligible person per calendar year. An insurance policy covers aggregate claims in excess of 120 percent of normal projected annual claims. The School District pays all administrative costs of the plan. During fiscal year 2007, \$10,633,721 was charged to expense relating to these benefits, including claims incurred but not reported.

# School District of the City of Dearborn, Michigan

## Notes to Financial Statements June 30, 2007

### Note 10 - Risk Management (Continued)

**Dental** - The self-insured dental plan covers all employees. Claims are funded by the School District and paid by the plan administrator. The School District pays all administrative costs of the plan. During fiscal year 2007, \$2,129,636 was charged to expense relating to these benefits, including claims incurred but not reported.

**Vision** - The self-insured vision plan covers all employees. Claims are funded by the School District and paid by the plan administrator, and average approximately \$225 per eligible person per calendar year. The School District pays all administrative costs of the plan. During fiscal year 2007, \$462,815 was charged to expense relating to these benefits, including claims incurred but not reported.

**Workers' Compensation** - The self-insured workers' compensation plan covers all employees. Claims are funded by the School District and paid by the plan administrator. An insurance policy covers claims in excess of \$300,000 per occurrence. During fiscal year 2007, approximately \$273,020 was charged to expense relating to these benefits, including claims incurred but not reported.

### Note 11 - Restricted Assets

The balance of the restricted asset accounts is as follows:

	Governmental Activities	Component Unit
Unspent bond proceeds and related interest	\$ 1,600,854	\$ -
Debt service fund	1,254,995	-
Charitable remainder trust	-	90,000
Total	<u>\$ 2,855,849</u>	<u>\$ 90,000</u>

### Note 12 - Contingent Liabilities

In the normal course of its activities, the School District is a party to various legal actions. It is the opinion of School District officials that potential claims in excess of insurance coverage resulting from pending litigation will not have a material effect on the financial statements and no reserves for losses are accrued.

# **School District of the City of Dearborn, Michigan**

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## **Notes to Financial Statements June 30, 2007**

### **Note 13 - Henry Ford Community College Foundation**

Henry Ford Community College Foundation was organized to develop fund-raising programs and events and to administer the resulting assets, in order to provide scholarships to students and other financial assistance to Henry Ford Community College's special programs and department projects.

The Internal Revenue Service has determine that the Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been recorded.

Temporarily restricted net assets contain donor-imposed restrictions that permit the Foundation to use or expend the assets as specified.

Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources be maintained permanently, but permit the Foundation to use or expend part or all of the income derived from the donated assets for specified purposes. Investment earnings available for distribution are recorded as temporarily restricted net assets, as the donors have imposed purpose restrictions on the earnings.

The College assumes the liability for the salaries of the Foundation's employees and certain general and administrative expenses. Expenses assumed by the College were \$239,524 for the year ended June 30, 2007.

### **Note 14 - Subsequent Event**

The College has signed an agreement to purchase and leaseback the Society of Manufacturing Engineers (SME) property. The College will sell general obligation bonds for \$12.2 million, which includes the purchase, leasehold improvements, renovation of the College space and regulatory upgrade costs. SME will lease approximately half of the square footage. The lease payments will cover the majority of the annual payment for principal and interest on the bonds.

## **Required Supplemental Information**

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# School District of the City of Dearborn, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Revenue</b>				
Property taxes	\$ 54,215,000	\$ 53,775,387	\$ 54,202,089	\$ 426,702
Investment income	380,000	430,288	448,894	18,606
Tuition and other local revenue	1,679,500	1,869,904	2,682,026	812,122
State sources	113,662,000	118,719,635	117,408,388	(1,311,247)
Incoming transfers from other districts	1,056,500	1,373,477	364,299	(1,009,178)
Restricted federal and state grants	13,000,000	13,000,000	15,349,650	2,349,650
Total revenue	183,993,000	189,168,691	190,455,346	1,286,655
<b>Expenditures - Current</b>				
Instruction	105,901,993	108,298,147	108,387,679	89,532
Support services	71,976,006	72,446,341	73,502,217	1,055,876
Capital outlay	1,278,867	1,393,426	1,279,204	(114,222)
Outgoing transfers to other school districts	77,894	106,275	-	(106,275)
Total expenditures	179,234,760	182,244,189	183,169,100	924,911
<b>Other Financing Sources (Uses)</b>				
Transfers in	1,130,000	1,127,733	1,563,853	436,120
Transfers out	(5,888,240)	(6,467,712)	(7,322,780)	855,068
Total other financing sources (uses)	(4,758,240)	(5,339,979)	(5,758,927)	418,948
<b>Net Change in Fund Balance</b>	-	1,584,523	1,527,319	(57,204)
<b>Fund Balance - July 1, 2006</b>	9,394,568	9,394,568	9,394,568	-
<b>Fund Balance - June 30, 2007</b>	<u>\$ 9,394,568</u>	<u>\$ 10,979,091</u>	<u>\$ 10,921,887</u>	<u>\$ (57,204)</u>

## **Other Supplemental Information**

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# School District of the City of Dearborn, Michigan

	Special Revenue Funds			
	Cafeteria	Athletics	Adult Education	Center Program
<b>Assets</b>				
Cash and cash equivalents	\$ 312,365	\$ 3,350	\$ 796,156	\$ -
Property taxes receivable	-	-	-	-
Accounts and grants receivable	36	-	-	244,092
Due from other funds	181,130	8,295	-	-
Prepaid costs	-	-	-	-
Inventories	91,216	-	-	-
Total assets	<u>\$ 584,747</u>	<u>\$ 11,645</u>	<u>\$ 796,156</u>	<u>\$ 244,092</u>
<b>Liabilities and Fund Balances (Deficit)</b>				
<b>Liabilities</b>				
Accounts and contracts payable	\$ -	\$ 8,632	\$ 56,114	\$ 359,360
Accrued salary, wages, and fringe benefits payable	35,898	3,013	45,162	414,396
Deferred revenue	-	-	55,175	-
Interfund balance	-	-	-	-
Due to other funds	-	-	31,173	97,648
Total liabilities	35,898	11,645	187,624	871,404
<b>Fund Balances (Deficit)</b>				
Reserved for inventories and prepaid costs	91,216	-	-	-
Reserved for debt service	-	-	-	-
Reserved for capital projects	-	-	-	-
Reserved for school services	457,633	-	608,532	(627,312)
Total fund balances (deficit)	<u>548,849</u>	<u>-</u>	<u>608,532</u>	<u>(627,312)</u>
Total liabilities and fund balances (deficit)	<u>\$ 584,747</u>	<u>\$ 11,645</u>	<u>\$ 796,156</u>	<u>\$ 244,092</u>

**Other Supplemental Information**  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
**June 30, 2007**

Capital Projects Funds					
General Building and Site	Capital Projects Series II	2007 Energy	2007 Fordson Field	Debt Service Funds	Total Nonmajor Funds
\$ 93,020	\$ 1,385,834	\$ 215,020	\$ -	\$ 1,254,995	\$ 4,060,740
-	-	-	-	650,305	650,305
-	-	-	-	655	244,783
88,636	570,025	-	401,664	-	1,249,750
-	-	-	423,336	-	423,336
-	-	-	-	-	91,216
<b>\$ 181,656</b>	<b>\$ 1,955,859</b>	<b>\$ 215,020</b>	<b>\$ 825,000</b>	<b>\$ 1,905,955</b>	<b>\$ 6,720,130</b>
\$ 181,656	\$ 205,708	\$ -	\$ 592,938	\$ -	\$ 1,404,408
-	-	-	-	-	498,469
-	-	-	-	-	55,175
-	-	-	-	587,943	587,943
-	-	215,020	-	14,352	358,193
181,656	205,708	215,020	592,938	602,295	2,904,188
-	-	-	423,336	-	514,552
-	-	-	-	1,303,660	1,303,660
-	1,750,151	-	(191,274)	-	1,558,877
-	-	-	-	-	438,853
-	1,750,151	-	232,062	1,303,660	3,815,942
<b>\$ 181,656</b>	<b>\$ 1,955,859</b>	<b>\$ 215,020</b>	<b>\$ 825,000</b>	<b>\$ 1,905,955</b>	<b>\$ 6,720,130</b>



# School District of the City of Dearborn, Michigan

	Special Revenue Funds			
	Cafeteria	Athletics	Adult Education	Center Program
<b>Revenue</b>				
Local:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Investment income	36,893	-	-	-
Tuition and other local revenue	31,504	-	2,024,741	-
Food service	2,036,971	-	-	-
Athletic gate receipts	-	125,725	-	-
Total local	2,105,368	125,725	2,024,741	-
State	301,088	-	410,112	2,612,335
Federal	2,915,428	-	-	-
Interdistrict - Incoming transfers from other districts	-	-	-	7,044,092
Total revenue	5,321,884	125,725	2,434,853	9,656,427
<b>Expenditures</b>				
Current:				
Adult education	-	-	2,088,577	-
Center program	-	-	-	8,046,566
Food service	5,008,673	-	-	-
Athletics	-	1,480,090	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal payments	-	-	-	-
Interest	-	-	-	-
Fees and other bond costs	-	-	-	-
Total expenditures	5,008,673	1,480,090	2,088,577	8,046,566
<b>Excess of Revenue Over (Under) Expenditures</b>	313,211	(1,354,365)	346,276	1,609,861
<b>Other Financing Sources (Uses)</b>				
Long-term debt issued	-	-	-	-
Proceeds from bond refunding	-	-	-	-
Premium on long-term debt issued	-	-	-	-
Payment to bond escrow agent	-	-	-	-
Transfers in	-	1,354,365	-	-
Transfers out	(309,220)	-	-	(1,254,633)
Total other financing sources (uses)	(309,220)	1,354,365	-	(1,254,633)
<b>Net Change in Fund Balances</b>	3,991	-	346,276	355,228
<b>Fund Balances (Deficit) - Beginning of year</b>	544,858	-	262,256	(982,540)
<b>Fund Balances (Deficit) - End of year</b>	<u>\$ 548,849</u>	<u>\$ -</u>	<u>\$ 608,532</u>	<u>\$ (627,312)</u>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures,**  
**and Changes in Fund Balances (Deficit)**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2007**

Capital Projects Funds					
Building and Site	Capital Projects Series II	2007 Energy	2007 Fordson Field	Debt Service Funds	Total Nonmajor Funds
\$ -	\$ -	\$ -	\$ -	\$ 17,188,352	\$ 17,188,352
2,086	99,213	44,288	-	338,582	521,062
-	-	103,732	-	23,526	2,183,503
-	-	-	-	-	2,036,971
-	-	-	-	-	125,725
2,086	99,213	148,020	-	17,550,460	22,055,613
-	-	-	-	-	3,323,535
-	-	-	-	-	2,915,428
-	-	-	-	-	7,044,092
2,086	99,213	148,020	-	17,550,460	35,338,668
-	-	-	-	-	2,088,577
-	-	-	-	-	8,046,566
-	-	-	-	-	5,008,673
-	-	-	-	-	1,480,090
3,984,217	1,890,682	4,634,374	592,938	-	11,102,211
-	-	-	-	10,634,840	10,634,840
-	-	-	-	7,418,898	7,418,898
-	-	24,914	-	736,400	761,314
3,984,217	1,890,682	4,659,288	592,938	18,790,138	46,541,169
(3,982,131)	(1,791,469)	(4,511,268)	(592,938)	(1,239,678)	(11,202,501)
-	-	4,615,000	-	-	4,615,000
-	-	-	-	90,885,000	90,885,000
-	-	-	-	5,018,657	5,018,657
-	-	-	-	(96,283,175)	(96,283,175)
3,539,190	-	-	825,000	1,707,957	7,426,512
-	-	(103,732)	-	-	(1,667,585)
3,539,190	-	4,511,268	825,000	1,328,439	9,994,409
(442,941)	(1,791,469)	-	232,062	88,761	(1,208,092)
442,941	3,541,620	-	-	1,214,899	5,024,034
<u>\$ -</u>	<u>\$ 1,750,151</u>	<u>\$ -</u>	<u>\$ 232,062</u>	<u>\$ 1,303,660</u>	<u>\$ 3,815,942</u>

# School District of the City of Dearborn, Michigan

## Other Supplemental Information Combining Statement of Net Assets - Proprietary Funds June 30, 2007

	Combined Total	General Fund	Auxiliary Services Fund	Designated Fund	Restricted Fund	Student Loan Fund	Agency Fund	Plant Funds
<b>Assets</b>								
<b>Current Assets</b>								
Cash and cash equivalents	\$ 19,798,640	\$ 19,594,402	\$ 45,056	\$ -	\$ 12,816	\$ 4,449	\$ 141,917	\$ -
Property taxes receivable	475,695	475,695	-	-	-	-	-	-
State appropriation receivable	1,214,762	1,214,762	-	-	-	-	-	-
Federal and state grants receivable	1,130,832	-	-	-	1,102,362	-	28,470	-
Accounts receivable	2,811,360	2,771,498	31,019	8,008	-	-	835	-
Due from other funds of the School District of Dearborn, Michigan	(469,710)	(2,792,771)	1,654,984	1,261,427	(460,199)	6,009	(16,070)	(123,090)
Inventories	905,323	-	905,323	-	-	-	-	-
Prepaid expenses and other assets	1,865,135	1,865,135	-	-	-	-	-	-
Total current assets	27,732,037	23,128,721	2,636,382	1,269,435	654,979	10,458	155,152	(123,090)
<b>Student Loans Receivable</b>	4,368	-	-	-	-	4,368	-	-
<b>Capital Assets - Net</b>	52,143,316	-	-	-	-	-	-	52,143,316
Total assets	<u>\$ 79,879,721</u>	<u>\$ 23,128,721</u>	<u>\$ 2,636,382</u>	<u>\$ 1,269,435</u>	<u>\$ 654,979</u>	<u>\$ 14,826</u>	<u>\$ 155,152</u>	<u>\$ 52,020,226</u>
<b>Liabilities and Net Assets</b>								
<b>Current Liabilities</b>								
Accounts payable	\$ 1,278,409	\$ 1,240,279	\$ 2,013	\$ -	\$ 36,117	\$ -	\$ -	\$ -
Accrued payrolls, amounts withheld from employees, and other compensation	823,065	805,982	-	-	17,083	-	-	-
Deferred revenue	2,675,490	1,960,481	-	106,717	601,779	-	6,513	-
Due to other funds of the School District of Dearborn, Michigan	(587,943)	-	-	-	-	-	-	(587,943)
Deposits held for others	148,639	-	-	-	-	-	148,639	-
Other accrued liabilities	2,868,054	2,748,735	-	-	-	-	-	119,319
Current portion of note payable	2,704	2,704	-	-	-	-	-	-
Current portion of bonds payable	1,990,659	-	-	-	-	-	-	1,990,659
Current portion of risk management liability	912,666	912,666	-	-	-	-	-	-
Current portion of accrued vacation and severance liabilities	677,194	677,194	-	-	-	-	-	-
Total current liabilities	10,788,937	8,348,041	2,013	106,717	654,979	-	155,152	1,522,035
<b>Bonds Payable - Net of unamortized premium, discounts, and issuance costs</b>	15,339,735	-	-	-	-	-	-	15,339,735
<b>Accrued Vacation and Severance Pay</b>	2,425,660	2,425,660	-	-	-	-	-	-
<b>Government Grants Refundable</b>	4,368	-	-	-	-	4,368	-	-
Total liabilities	28,558,700	10,773,701	2,013	106,717	654,979	4,368	155,152	16,861,770
<b>Net Assets</b>								
Invested in capital assets - Net of related debt	34,812,922	-	-	-	-	-	-	34,812,922
Restricted for:								
Debt service	345,534	-	-	-	-	-	-	345,534
Loans	10,458	-	-	-	-	10,458	-	-
Unrestricted	16,152,107	12,355,020	2,634,369	1,162,718	-	-	-	-
Total net assets	51,321,021	12,355,020	2,634,369	1,162,718	-	10,458	-	35,158,456
Total liabilities and net assets	<u>\$ 79,879,721</u>	<u>\$ 23,128,721</u>	<u>\$ 2,636,382</u>	<u>\$ 1,269,435</u>	<u>\$ 654,979</u>	<u>\$ 14,826</u>	<u>\$ 155,152</u>	<u>\$ 52,020,226</u>

# School District of the City of Dearborn, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Assets - Proprietary Funds Year Ended June 30, 2007

	Combined Total	Eliminations	General Fund	Auxiliary Services Fund	Designated Fund	Restricted Fund	Student Loan Fund	Plant Funds
<b>Operating Revenue</b>								
Tuition and fees - Net of scholarship allowance of \$13,177,179	\$ 20,443,131	\$ (13,177,179)	\$ 32,981,361	\$ -	\$ 638,949	\$ -	\$ -	\$ -
Federal grants and contracts	14,707,400	-	-	-	-	14,707,400	-	-
State and local grants and contracts	3,200,060	-	-	-	-	3,105,122	-	94,938
Auxiliary activities	7,187,190	-	-	7,112,498	74,692	-	-	-
Other funds expenditures for capital assets	-	(1,245,491)	-	-	-	-	-	1,245,491
Miscellaneous	1,254,519	(19,887)	1,237,704	-	30,548	-	-	6,154
Total operating revenue	46,792,300	(14,442,557)	34,219,065	7,112,498	744,189	17,812,522	-	1,346,583
<b>Operating Expenses</b>								
Instruction	32,701,139	(680,789)	29,880,930	-	451,948	3,049,050	-	-
Instructional support	6,726,024	(159,968)	6,851,632	-	34,360	-	-	-
Student services	8,594,279	(13,197,066)	6,437,895	-	93	15,353,357	-	-
Institutional administration	9,029,617	(246,006)	9,275,165	-	-	-	-	458
Information technology	3,729,002	-	3,729,002	-	-	-	-	-
Physical plant operations	5,771,736	-	5,771,736	-	-	-	-	-
Auxiliary enterprises	6,308,410	(23,874)	(6,826)	6,335,921	-	3,189	-	-
Repairs and maintenance	89,807	(134,854)	151,506	-	72,333	-	-	822
Depreciation expense	3,057,276	-	-	-	-	-	-	3,057,276
Total operating expenses	76,007,290	(14,442,557)	62,091,040	6,335,921	558,734	18,405,596	-	3,058,556
<b>Operating Income (Loss)</b>	(29,214,990)	-	(27,871,975)	776,577	185,455	(593,074)	-	(1,711,973)
<b>Nonoperating Revenue (Expenses)</b>								
State appropriations	17,215,000	-	17,215,000	-	-	-	-	-
Property taxes	16,328,099	-	14,185,475	-	-	-	-	2,142,624
Investment income	1,189,672	-	1,136,002	-	-	-	-	53,670
Interest on capital asset-related debt	(782,692)	-	(46,602)	-	-	-	-	(736,090)
Principal payment of debt	-	-	(80,000)	-	-	-	-	80,000
Other nonoperating revenue	465	-	-	-	-	-	465	-
Net nonoperating revenue	33,950,544	-	32,409,875	-	-	-	465	1,540,204
<b>Increase (Decrease) in Net Assets</b>	4,735,554	-	4,537,900	776,577	185,455	(593,074)	465	(171,769)
<b>Transfers In (Out)</b>	-	-	(993,074)	-	-	593,074	-	400,000
<b>Net Increase in Net Assets</b>	4,735,554	-	3,544,826	776,577	185,455	-	465	228,231
<b>Net Assets - Beginning of year</b>	46,585,467	-	8,810,194	1,857,792	977,263	-	9,993	34,930,225
<b>Net Assets - End of year</b>	<u>\$ 51,321,021</u>	<u>\$ -</u>	<u>\$ 12,355,020</u>	<u>\$ 2,634,369</u>	<u>\$ 1,162,718</u>	<u>\$ -</u>	<u>\$ 10,458</u>	<u>\$ 35,158,456</u>

# School District of the City of Dearborn, Michigan

		2002 Site Bond (Series I)	2001 QZAB	2002 QZAB	2002 Site Bond (Series II)
June 30	1998 Refunding Principal	Principal	Principal	Principal	Principal
2008	\$ 818,400	\$ 4,025,000	\$ -	\$ -	\$ 900,000
2009	855,600	4,100,000	-	-	1,075,000
2010	888,150	4,200,000	-	-	1,275,000
2011	948,600	4,300,000	-	-	2,175,000
2012	1,004,400	4,425,000	-	-	2,325,000
2013	1,013,700	-	-	-	2,475,000
2014	999,750	-	3,575,000	-	-
2015	-	-	-	-	-
2016	-	-	-	-	-
2017	-	-	-	881,550	-
2018	-	-	-	-	-
2019	-	-	-	-	-
2020	-	-	-	-	-
2021	-	-	-	-	-
2022	-	-	-	-	-
2023	-	-	-	-	-
2024	-	-	-	-	-
Total	<b>\$ 6,528,600</b>	<b>\$ 21,050,000</b>	<b>\$ 3,575,000</b>	<b>\$ 881,550</b>	<b>\$ 10,225,000</b>
Principal payments due	May 1	May 1	May 1	August 28	May 1
Interest payments due	May 1 and November 1	May 1 and November 1	N/A	N/A	May 1 and November 1
Interest rate	4.25%-4.9%	3.5%-5.0%	0.0%	0.0%	3.25%-4.125%
Original issue	<b>\$ 10,774,050</b>	<b>\$ 97,680,000</b>	<b>\$ 3,575,000</b>	<b>\$ 881,500</b>	<b>\$ 44,305,000</b>

Note: This schedule reports the debt allocated to the P-12 only. Obligations of the College are excluded.

**Other Supplemental Information**  
**Schedule of Bonded Indebtedness (P-12)**  
**Year Ended June 30, 2007**

2003 Refunding	2002 Site Bond (Series III)	2004 Refunding (Series A)	2006 Energy	2007 Refunding
Principal	Principal	Principal	Principal	Principal
\$ 3,055,897	\$ 200,000	\$ 815,000	\$ 380,000	\$ -
3,097,855	200,000	805,000	395,000	-
3,104,848	225,000	790,000	415,000	-
3,209,741	225,000	-	430,000	-
3,304,145	250,000	-	450,000	-
3,377,571	300,000	-	470,000	4,650,000
3,412,490	350,000	-	485,000	7,660,000
-	500,000	-	510,000	9,365,000
-	550,000	-	530,000	9,465,000
-	575,000	-	550,000	9,660,000
-	600,000	-	-	9,790,000
-	625,000	-	-	9,940,000
-	650,000	-	-	10,085,000
-	675,000	-	-	10,145,000
-	675,000	-	-	10,125,000
-	700,000	-	-	-
-	700,000	-	-	-
<b>\$ 22,562,547</b>	<b>\$ 8,000,000</b>	<b>\$ 2,410,000</b>	<b>\$ 4,615,000</b>	<b>\$ 90,885,000</b>
May 1	May 1	May 1	May 1	May 1
May 1 and November 1	May 1 and November 1	May 1 and November 1	May 1 and November 1	May 1 and November 1
3.0%-5.0%	3.375%-5.0%	2%-4%	4% - 5.5%	4.125% - 5%
<b>\$ 34,461,049</b>	<b>\$ 8,385,000</b>	<b>\$ 4,735,000</b>	<b>\$ 4,615,000</b>	<b>\$ 90,885,000</b>

October 9, 2007

To the Board of Education  
School District of the  
City of Dearborn  
18700 Audette  
Dearborn, MI 48124

Dear Board Members:

We recently completed our audit of the basic financial statements of School District of the City of Dearborn for the year ended June 30, 2007. We would like to express our appreciation to Mr. Cipriano, Ms. Dust, and the rest of the business office staff for their cooperation and assistance provided us during the audit process. We found the books and records to be in very good condition and would like to compliment the School District in this critical area. As a result of our audit, we have the following comments for your review and consideration as well as some general items for your information.

### **Internal Control Observations**

During our audit process, we noted an instance whereby a minor unreconciled item existed on a bank reconciliation for some period of time. While this item may not be significant to the School District overall, we feel that any unreconciled item should be analyzed and reconciled within 30 days of the end of the month to ensure the integrity of the system. During the audit, we discussed this with management and have been advised that this item will be reconciled shortly after the completion of the audit.

### **Statement on Auditing Standards (SAS 112)**

Beginning with this year's audit, auditing standards now call for auditors to communicate matters to the governing body that may be useful to you in your oversight of the School District's financial management. Specifically, they require us to report internal control issues to you, including those that may be relatively minor, in order to allow you to evaluate their significance and make any changes you may deem appropriate. The purpose of these new standards is to allow you an opportunity to discuss issues when they are relatively minor, rather than waiting until they potentially become more serious problems. Our observations and comments regarding internal controls, including any significant deficiencies or material weaknesses that we identified in accordance with SAS 112, have been reported to you in the accompanying report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. We recommend that the matters we have noted there receive your consideration.

### **Deferred Compensation Issue**

In 2004, the IRS issued new deferred compensation regulations. One of the possible unintended consequences of these new regulations is an impact on the taxability of teachers electing the 26-pay option. In order to allow districts some time to adjust to these new rules, the IRS recently issued IR-2007-142, which states the new deferred compensation rules will not be applied to annualization elections for school years beginning before January 1, 2008. So any possible impact will not affect the School District until the year beginning July 1, 2008.

While there will be much discussion of this issue in the coming months, the conservative approach to avoiding any problems appears (at this time) to be to make certain all 26-pay elections are signed before any service is rendered and allow no changes during the election year. We will have more information on this subject as the year progresses but, for now, you should be thinking about a method that insures all elections are in place before the teachers return in the fall of 2008.

### **Net Assets**

During the 2006-2007 school year, the School District's unrestricted net asset balance increased by approximately \$3,701,000, resulting in \$5,381,000 of unrestricted net assets at June 30, 2007. As you are aware, it is important for the School District to maintain an appropriate level of net assets in order to meet unforeseen circumstances, like a government shutdown. Net assets give the School District time to work out financial changes without the need for sudden or drastic reactions to adverse circumstances. We understand that the administration worked hard to reduce costs during the year when it was unclear if the State was going to enact a foundation allowance proration, which ultimately did not happen. We commend the administration for acting prudently to the uncertainty it faced during the year.

Given the uncertainties with state funding, on-going budget planning for the next several years will continue to be essential elements for the School District's success. As with most school districts in Michigan, School District of the City of Dearborn, Michigan will continue to face budget challenges in 2007/2008, but we compliment the administration for its efforts relating to this area.

### **Uniform Budgeting and Accounting Act**

As you are aware, districts must adopt their June 30, 2008 budget prior to July 1, 2007. At the time of initial adoption there are significant unknown variables. In addition to the 2007-2008 student count, which is always unknown, there is no state aid act to at least give the School District a per pupil foundation number for planning purposes. This is compounded by the tremendous uncertainty surrounding the overall condition of the School Aid Fund as well as the State's General Fund. Add to that the uncertainty of healthcare and benefits costs and you begin to see how tentative the initial budget really is. Given these uncertainties, we commend the School District for its continued prudence in budget development which helps prevent having to make mid-year budget cuts.



The Michigan Department of Education (MDE) has a program to monitor school district compliance with the Uniform Budgeting and Accounting Act. MDE began by reviewing the June 30, 2005 annual audited financial statements and identifying any district or public school academy whose total expenditures exceed its budget by more than 1 percent. In addition, the same test is applied to other financing sources (uses). Beginning with the June 30, 2006 annual audited financial statements, MDE will also consider certain revenue shortfalls as being a violation. For a revenue shortfall to be a violation it has to represent a variance greater than 1 percent of the total budgeted revenue and the School District's fund balance must have been depleted beyond what had been approved by the Board of Education.

Violations result in a letter being sent to the district. If an adequate response is not received back from the district, MDE will refer the district to the attorney general's office for possible further action. If your school district receives a violation notice from MDE, you will have two weeks to provide MDE with information regarding the School District's procedures to detect and prevent violations of the act. MDE will then decide, based on your response, on the appropriateness of referring the violation to the attorney general's office for further consideration.

For the year ended June 30, 2007, the School District was out of compliance related to other financing uses as the variance was greater than 1 percent. We discussed this matter with the administration and found that there are specific reasons for the variance that the administration will provide to the State if a notice is received.

### **New Auditing Pronouncements**

**Statements on Auditing Standards Nos. 104 to 111 - The Risk Assessment Standards -** The AICPA issued Statements on Auditing Standards (SAS 104 to SAS 111), which will substantially affect the auditing process. The effective date for school district audits will be for the audit of the financial statements for the year ending June 30, 2008. These standards essentially redefine the audit process from start to finish and the ramifications for the audit process are substantial.

The new standards primarily require:

- The auditor to obtain a deeper understanding of (1) the district and its internal control, for purposes of identifying the risks of material misstatement in the financial statements; and (2) what the district is doing to mitigate those risks
- A more rigorous assessment of the risks of material misstatement based on that understanding, with additional emphasis on significant risks that call for special audit consideration
- A clearer linkage between the assessed risks and the audit procedures performed, including tests of controls and substantive tests, in response to those risks

We have invested substantial resources into the redesign of our audit process to conform to these requirements. Our ultimate goal, as in the past, is to provide a quality audit, in full conformance to the requirements, which is tailored to the unique environment for Michigan schools. As a result, our 2008 audit process will have many new features and elements built in. We will work with the School District to understand the elements, involve them in the information gathering process, and perform audit tests focused on the risks embedded in the School District's financial statements. To provide the School District with as much lead time as possible in the data gathering process, we will review the information needs and provide the School District the tools necessary in the fall of 2007.

**Statement on Auditing Standards No. 114 - Communication with Those Charged with Governance** - The AICPA issued Statements on Auditing Standards (SAS) 114, which will increase the amount of information provided to the Board of Education, superintendent, and others charged with governance about the audit process and results. This standard, effective for the June 30, 2008 audit, will provide information describing what an audit is, emphasizing management's role in the financial statement reporting process, identifying issues encountered during the audit, and clarifying what must be communicated in writing. This required communication will be in addition to the financial statements, management letter, and single audit report already received by the School District.

**Government Auditing Standards (2007 Revision)** - The Government Accountability Office (GAO) has finalized its revisions to *Government Auditing Standards* (the "Yellow Book"). These revisions were issued in January 2007. All school districts in Michigan are required to be audited under the Yellow Book requirements in addition to the audit standards issued by the Auditing Standards Board. Most of these Yellow Book changes will be effective for the June 30, 2009 school district audits. However, the Yellow Book does incorporate the SASs issued by the AICPA and those requirements will be effective based on the effective date of the SAS. The changes unique to the Yellow Book are substantive and will impact audit approach, audit documentation, and audit reporting. Some likely impacts from the changes include:

- Clarified ethics and competency considerations when audit services are performed
- Increased use of "emphasis of matter" comments in the auditor's opinion when unique financial statement matters impact the financial statements
- Increased evaluation of compliance with auditor independence requirements
- Increased expectation of governments to maintain and prepare their financial information for audit

These changes along with the other changes in the auditing standards continue to increase the level of audit effort required by the auditor and the amount of information provided to the School District. We will work closely with the School District to simplify and clarify changes as they continue to become effective.

To the Board of Education  
School District of the  
City of Dearborn

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October 9, 2007

We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink, appearing to read "Fred Hailer Jr".

Frederick C. Hailer, Jr.

A handwritten signature in black ink, appearing to read "Jeffrey P. Dolowy".

Jeffrey P. Dolowy

# **School District of the City of Dearborn, Michigan**

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**Federal Awards  
Supplemental Information  
June 30, 2007**

# School District of the City of Dearborn, Michigan

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Plante & Moran, PLLC  
Suite 500  
2601 Cambridge Court  
Auburn Hills, MI 48326  
Tel: 248.375.7100  
Fax: 248.375.7101  
plantemoran.com

## Independent Auditor's Report

To the Board of Education  
School District of the City of  
Dearborn, Michigan

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information that collectively comprise the School District of the City of Dearborn, Michigan's (the "School District") basic financial statements, which includes the P-12 activities and the operations of Henry Ford Community College (the "College") as part of the School District's reporting and legal entity, for the year ended June 30, 2007 and have issued our report thereon dated October 9, 2007. Those basic financial statements are the responsibility of the management of the School District of the City of Dearborn, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the School District of the City of Dearborn, Michigan's basic financial statements. The accompanying schedule of expenditures of federal awards and reconciliation of financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

October 9, 2007



**Plante & Moran, PLLC**  
Suite 500  
2601 Cambridge Court  
Auburn Hills, MI 48326  
Tel: 248.375.7100  
Fax: 248.375.7101  
plantemoran.com

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance  
with *Government Auditing Standards***

To the Board of Education  
School District of the City of  
Dearborn, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District of the City of Dearborn, Michigan as of and for the year ended June 30, 2007, which collectively comprise the School District of the City of Dearborn, Michigan's basic financial statements, and have issued our report thereon dated October 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School District of the City of Dearborn, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District of the City of Dearborn, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District of the City of Dearborn, Michigan's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a control deficiency over financial reporting that we consider to be a significant deficiency and one other deficiency that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the control deficiency described in the accompanying schedule of findings and questioned costs as item 2007-A to be a significant deficiency in internal control over financial reporting.

To the Board of Education  
School District of the City of  
Dearborn, Michigan

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe the deficiency described in the schedule of findings and questioned costs as item 2007-B constitutes a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School District of the City of Dearborn, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The School District of the City of Dearborn, Michigan's response to the significant deficiencies and findings relating to compliance and other matters identified in our audit and described in the accompanying schedule of findings and questioned costs has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education/Trustees, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moreau, PLLC*

October 9, 2007



Report on Compliance with Requirements Applicable to Each  
Major Program and on Internal Control Over  
Compliance in Accordance with OMB Circular A-133

To the Board of Education  
School District of the City of  
Dearborn, Michigan

## Compliance

We have audited the compliance of the School District of the City of Dearborn, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. The major federal programs of the School District of the City of Dearborn, Michigan are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School District of the City of Dearborn, Michigan's management. Our responsibility is to express an opinion on the School District of the City of Dearborn, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District of the City of Dearborn, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District of the City of Dearborn, Michigan's compliance with those requirements.

In our opinion, the School District of the City of Dearborn, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2007-01, 2007-02, and 2007-03.

To the Board of Education  
School District of the City of  
Dearborn, Michigan

## **Internal Control Over Compliance**

The management of the School District of the City of Dearborn, Michigan is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District of the City of Dearborn, Michigan's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2007-01, 2007-02, and 2007-03 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be a material weakness.

The School District of the City of Dearborn, Michigan's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the School District of the City of Dearborn, Michigan's response and, accordingly, we express no opinion on it.

To the Board of Education  
School District of the City of  
Dearborn, Michigan

This report is intended solely for the information and use of the Board of Education/Trustees, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moreau, PLLC*

October 9, 2007

# School District of the City of Dearborn, Michigan

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures
Clusters:			
Child Nutrition Cluster - U.S. Department of Agriculture - Passed through the Michigan Department of Education:			
National School Breakfast Program 2006-2007	10.553	\$ 461,664	\$ -
National School Lunch Program 2006-2007		2,430,984	-
National School After School Snack Program 2006-2007	10.555	22,780	-
Fruit and Vegetable Program	10.582	28,064	-
Total Child Nutrition Cluster		2,943,492	-
Student Financial Aid Cluster - U.S. Department of Education - Henry Ford Community College:			
Supplemental Educational Opportunity Grant	84.007	519,868	490,317
Federal Work Study Program	84.033	278,683	253,788
Pell Grant Program	84.063	12,654,706	11,790,667
Federal Direct Loan Program	84.268	21,372,580	20,223,436
Federal Academic Competitiveness Grant	84.375	8,500	-
Total Student Financial Aid Cluster		34,834,337	32,758,208
Special Education Cluster:			
U.S. Department of Education:			
Passed through the Wayne County RESA:	84.027A		
IDEA:			
Flowthrough - Project number 050450-0405		2,503,802	2,503,309
Flowthrough - Project number 060450-0506		2,920,213	2,382,861
Flowthrough - Project number 070450-0607		3,168,074	-
Professional development - Project number 060450-0506		317,550	317,550
Transition services - Project number 060450-0506		2,750	2,145
Transition services - Project number 070450-0607		4,800	-
Total IDEA		8,917,189	5,205,865
Preschool Incentive:	84.173A		
Project number 030460-0203		105,490	9,254
Project number 050460-0405		103,816	103,816
Project number 060460-0506		102,051	102,051
Project number 070460-0607		109,719	-
Total Preschool Incentive		421,076	215,121
Total Special Education Cluster		9,338,265	5,420,986

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Accrued (Deferred) Revenue at July 1, 2006	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2007
\$ -	\$ -	\$ 461,664	\$ 461,664	\$ -
-	-	2,430,984	2,430,984	-
-	-	22,780	22,780	-
-	-	28,064	28,064	-
-	-	2,943,492	2,943,492	-
(5,285)	-	510,064	519,868	4,519
310,828	-	469,436	278,683	120,075
22,849	-	12,545,197	12,654,706	132,358
129,374	-	21,426,890	21,372,580	75,064
-	-	8,500	8,500	-
457,766	-	34,960,087	34,834,337	332,016
724,879	-	724,879	-	-
(515,191)	-	-	537,352	22,161
-	-	1,640,512	2,503,566	863,054
31,755	-	31,755	-	-
(416)	-	-	29	(387)
-	-	-	4,757	4,757
241,027	-	2,397,146	3,045,704	889,585
497	-	497	-	-
28,968	-	28,968	-	-
22,058	-	22,058	-	-
-	-	90,308	109,719	19,411
51,523	-	141,831	109,719	19,411
292,550	-	2,538,977	3,155,423	908,996

# School District of the City of Dearborn, Michigan

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures
Clusters (Continued):			
Bilingual Education Cluster - U.S. Department of Education -			
Direct Programs:			
Passed through the U.S. Treasury Department - System-wide			
Improvement Grants - Program number T291R99014-02	84.291R	\$ 8,569	\$ -
Foreign Language Acquisition Program - Program number T293B060015	84.293B	291,611	-
Total Bilingual Education Cluster		300,180	-
Total U.S. Department of Education cluster programs		44,472,782	38,179,194
Total cluster programs		47,416,274	38,179,194
Other federal awards:			
U.S. Department of Education:			
Passed through the Michigan Department of Education:			
Adult Education:	84.002		
Project number 061120-6500225		26,900	13,095
Project number 071120-7500227		40,100	-
Project number 061200-660001		10,000	10,000
Project number 051130-610316		20,000	20,000
Project number 061130-610316		533,900	492,705
Project number 071130-710317		525,900	-
Total Adult Education		1,156,800	535,800
Title I:	84.010		
Project number 051520-0506		9,000	9,000
Project number 051530-0506		1,115,155	1,115,152
Project number 061530-0506		5,482,446	4,711,069
Project number 071530-0607		5,482,446	-
Project number 061530-0607		967,491	-
Project number 061700-0506		285,082	187,179
Project number 071700-0607		289,131	-
Total Title I		13,630,751	6,022,400
Safe and Drug-free Schools and Communities:	84.186		
Project number 062860-0506		153,430	143,245
Project number 062860-0607		9,096	-
Project number 072860-0607		131,054	-
Total Safe and Drug-free Schools and Communities		293,580	143,245

**Schedule of Expenditures of Federal Awards (Continued)**  
**Year Ended June 30, 2007**

Accrued (Deferred) Revenue at July 1, 2006	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2007
\$ 8,569	\$ -	\$ 8,569	\$ -	\$ -
-	-	183,280	197,099	13,819
8,569	-	191,849	197,099	13,819
758,885	-	37,690,913	38,186,859	1,254,831
758,885	-	40,634,405	41,130,351	1,254,831
(10,000)	-	-	10,000	-
-	-	38,629	40,100	1,471
10,000	-	10,000	-	-
20,000	-	20,000	-	-
9,110	-	50,305	41,195	-
-	-	426,583	525,900	99,317
29,110	-	545,517	617,195	100,788
533	-	533	-	-
39,976	-	39,976	-	-
509,344	-	1,280,721	771,377	-
-	-	3,808,284	4,844,421	1,036,137
-	-	763,888	967,491	203,603
-	-	97,903	97,903	-
-	-	192,307	249,178	56,871
549,853	-	6,183,612	6,930,370	1,296,611
28,875	-	28,875	-	-
-	-	2,866	9,096	6,230
-	-	120,098	131,054	10,956
28,875	-	151,839	140,150	17,186

# School District of the City of Dearborn, Michigan

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures
Other federal awards (Continued):			
U.S. Department of Education (Continued):			
Passed through the Michigan Department of Education (Continued):			
Title V:	84.298		
Project number 060250-0506		\$ 72,049	\$ 66,981
Project number 070250-0607		32,633	-
Total Title V		104,682	66,981
Title II, Part D:	84.318		
Project number 054290-0506		18,015	18,015
Project number 064290-0506		120,326	78,088
Project number 064290-0607		15,291	-
Project number 074290-0607		61,499	-
Total Title II, Part D		215,131	96,103
Comprehensive School Reform:	84.332		
Project number 051870-0506		251,000	251,000
Project number 061870-0607		272,100	-
Total Comprehensive School Reform		523,100	251,000
Reading First:	84.357		
Project number 042930-020302		402,675	402,964
Project number 052910-020303		130,238	130,238
Project number 052910-0405		100,000	99,462
Project number 062930-0506		1,428,750	1,390,799
Project number 062910-0607A		232,879	-
Project number 062930-0607		1,242,593	-
Total Reading First		3,537,135	2,023,463
Title III English Language Acquisition:	84.365		
Project number 060580-0506		1,297,837	1,105,671
Project number 060580-0607		80,372	-
Project number 070580-0607		844,765	-
Total Title III English Language Acquisition		2,222,974	1,105,671



**Schedule of Expenditures of Federal Awards (Continued)**  
**Year Ended June 30, 2007**

Accrued (Deferred) Revenue at July 1, 2006	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2007
\$ 1,196	\$ -	\$ 6,264	\$ 5,068	\$ -
-	-	28,000	32,633	4,633
1,196	-	34,264	37,701	4,633
657	-	657	-	-
(40,189)	-	(13,241)	26,948	-
-	-	28,161	15,291	(12,870)
-	-	40,338	12,225	(28,113)
(39,532)	-	55,915	54,464	(40,983)
24,608	-	24,608	-	-
-	-	189,340	258,938	69,598
24,608	-	213,948	258,938	69,598
193,917	(193,917)	-	-	-
15,685	-	15,685	-	-
1,509	-	1,509	-	-
176,504	-	176,504	-	-
-	-	90,204	226,727	136,523
-	-	942,267	1,189,540	247,273
387,615	(193,917)	1,226,169	1,416,267	383,796
214,205	(55,000)	324,939	165,734	-
-	-	65,485	80,372	14,887
-	-	720,788	824,699	103,911
214,205	(55,000)	1,111,212	1,070,805	118,798

# School District of the City of Dearborn, Michigan

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures
Other federal awards (Continued):			
U.S. Department of Education (Continued):			
Passed through the Michigan Department of Education (Continued):			
Title II, Part A - Improving Teacher Quality:	84.367		
Project number 060520-0506		\$ 1,045,431	\$ 1,034,770
Project number 070520-0607		1,012,045	-
Total Title II, Part A - Improving Teacher Quality		2,057,476	1,034,770
Hurricane Katrina Relief:	84.938		
Project number 064120 NONP		2,886	-
Project number 064120-I		27,546	-
Total Hurricane Katrina Relief		30,432	-
Total passed through the Michigan Department of Education		23,772,061	11,279,433
Passed through Wayne County RESA - Carl D. Perkins Vocational Education Act - Vocational Education - Basic Grants to States:	84.048A		
Project number 043520-401225		227,235	221,826
Project number 7012-25		217,514	-
Henry Ford Community College:			
Project number 7025-8 - Local Administration		18,400	18,400
Project number 7021-8 - Regional Allocation		1,083,709	962,494
Project number 7029-CT-8 - Career Transitions		12,000	-
Project numbers 7029-8 - Fast Track		2,508	3,066
Total passed through Wayne County Regional Education Service Agency		1,561,366	1,205,786
Passed through Monroe County ISD - Tech Prep Education Program - Henry Ford Community College - Project number 063540/6014-25	84.243A	-	90,660
Child Care Access Means Parents in School Program - Henry Ford Community College - Project number P335A020011	84.335A	-	79,826
Total U.S. Department of Education noncluster programs		25,333,427	12,655,705

**Schedule of Expenditures of Federal Awards (Continued)**  
**Year Ended June 30, 2007**

Accrued (Deferred) Revenue at July 1, 2006	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2007
\$ 157,355	\$ -	\$ 168,016	\$ 10,661	\$ -
-	-	805,309	989,900	184,591
157,355	-	973,325	1,000,561	184,591
-	-	2,886	2,886	-
-	-	27,546	27,546	-
-	-	30,432	30,432	-
1,353,285	(248,917)	10,526,233	11,556,883	2,135,018
47,364	-	47,364	-	-
-	-	108,493	217,514	109,021
-	-	18,400	18,400	-
-	-	1,083,709	1,083,709	-
-	-	12,000	12,000	-
-	-	8,929	2,508	(6,421)
47,364	-	1,278,895	1,334,131	102,600
13,546	-	75,983	89,260	26,823
(3,189)	-	-	3,189	-
1,411,006	(248,917)	11,881,111	12,983,463	2,264,441

# School District of the City of Dearborn, Michigan

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures
Other federal awards (Continued):			
U.S. Department of Agriculture - Passed through the Michigan Department of Education - Food Distribution Entitlement Commodities - 2006-2007	10.550	\$ 247,758	\$ -
U.S. Department of Health and Human Services:			
Passed through the Michigan Department of Education - Refugee Children School Impact Program - Program number 051840-0405	93.576	158,390	158,390
Passed through Western Michigan University - MBBP - Michigan Bridges	93.859	<u>35,922</u>	<u>-</u>
Total U.S. Department of Health and Human Services noncluster programs		194,312	158,390
National Endowment for the Humanities - Henry Ford Community College - NEH Rouge Grant number BI-50022-06	45.168	<u>119,166</u>	<u>140,947</u>
Total noncluster programs		<u>25,894,663</u>	<u>12,955,042</u>
Total federal awards		<u><b>\$ 73,310,937</b></u>	<u><b>\$ 51,134,236</b></u>

**Schedule of Expenditures of Federal Awards (Continued)**  
**Year Ended June 30, 2007**

Accrued (Deferred) Revenue at July 1, 2006	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2007
\$ -	\$ -	\$ 247,758	\$ 247,758	\$ -
13,095	-	13,095	-	-
-	-	1,286	11,529	10,243
13,095	-	14,381	11,529	10,243
92,040	-	117,088	25,048	-
1,516,141	(248,917)	12,260,338	13,267,798	2,274,684
<b>\$ 2,275,026</b>	<b>\$ (248,917)</b>	<b>\$ 52,894,743</b>	<b>\$ 54,398,149</b>	<b>\$ 3,529,515</b>

# **School District of the City of Dearborn, Michigan**

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## **Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2007**

Revenue from federal sources - As reported on financial statements (includes all funds)	\$ 32,972,478
Federal Revenue recorded as state revenue and other adjustments	53,091
Plus student loan programs, which are excluded from federal revenue	<u>21,372,580</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><b>\$ 54,398,149</b></u>

# School District of the City of Dearborn, Michigan

## Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

### Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the School District of the City of Dearborn, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

### Note 2 - Grant Section Auditor's Report

Management has utilized Form R-7120 and the Cash Management System (CMS) Grant Auditor Report in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

### Note 3 - Noncash Assistance

The value of the noncash assistance received was determined with the provisions of OMB Circular A-133.

### Note 4 - Adjustments and Transfers

During the year ended June 30, 2007, adjustments were posted to correct prior year receivables where the period of availability to collect on those specific projects had lapsed and to claim award amounts from previous periods.

Federal Program Title/Project Number	CFDA Number	Adjustment Amount
Reading First - Project number 042930-020302	84.357	\$ (193,917)
Title III - Project number 060580-0506	84.365	<u>(55,000)</u>
Total adjustments		<u>\$ (248,917)</u>

Other adjustments of \$248,917 resulted from cash received in previous years not reported in prior year reports.

# School District of the City of Dearborn, Michigan

## Schedule of Findings and Questioned Costs Year Ended June 30, 2007

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☒ Yes ☐ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

#### Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☒ Yes ☐ No



# School District of the City of Dearborn, Michigan

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

### Section I - Summary of Auditor's Results (Continued)

Identification of major program(s):

CFDA Numbers	Name of Federal Program or Cluster
	Student Financial Aid Cluster:
84.007	Supplemental Educational Opportunity Grant
84.033	Federal Work Study Program
84.063	Pell Grant Program
84.268	Federal Direct Loan Program
84.375	Federal Academic Competitiveness Grant
	Special Education Cluster:
84.027A	IDEA
84.173A	Preschool Incentive
84.010	Title I
84.367	Title II, Part A

Dollar threshold used to distinguish between type A and type B programs: \$990,767

Auditee qualified as low-risk auditee?      ☐ Yes      ☒ No

# School District of the City of Dearborn, Michigan

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

### Section II - Financial Statement Audit Findings

Reference Number	Findings
2007-A	<p><b>Finding Type</b> - Significant deficiency</p> <p><b>Criteria</b> - Maintaining financial information is a critical part of the financial reporting process. Such a process should include the accurate recording of construction in progress and net assets.</p> <p><b>Context</b> - We noted that the College's construction in progress and beginning net asset account balances were improperly reduced in the general ledger.</p> <p><b>Cause and Effect</b> - The College's system closed the construction in progress accounts out to net assets when the prior year general ledger balances were closed for the year. It appears that the construction in progress accounts were improperly coded in the system as expenditure accounts instead of asset accounts.</p> <p><b>Recommendation</b> - The College should review the account attribute coding for all construction in progress accounts as well as perform a thorough review of all beginning net asset balances when the fiscal year is closed in the system. In addition, the College should consider implementing review procedures when new accounts are created to ensure the accuracy of account attributes.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The College is aware of the issue and has begun to take steps to correct the issue and prevent it from occurring in subsequent years.</p>

# School District of the City of Dearborn, Michigan

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

### Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
2007-B	<p><b>Finding Type</b> - Material weakness</p> <p><b>Criteria</b> - Reviewing invoices when services are performed and when goods are received is important for proper cutoff of expenditures and recording accounts payable in the correct fiscal year.</p> <p><b>Context</b> - We noted that various expenditures relating to the 2007 Fordson Field Capital Project Fund were not recorded in the proper fiscal year.</p> <p><b>Cause and Effect</b> - P-12 did not record expenditures in the current fiscal year for various construction costs incurred before June 30, 2007. As a result, the amount of capital outlay and accounts payable within the fund was understated.</p> <p><b>Recommendation</b> - P-12 should review invoices received after year end to determine the proper fiscal year that services were performed or that goods are received.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - Management at P-12 is aware of the issue and has begun to take steps to correct the issue and prevent it from occurring in subsequent years.</p>

# School District of the City of Dearborn, Michigan

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

### Section III - Federal Program Audit Findings

Reference Number	Findings
2007-01	<p><b>Henry Ford Community College</b></p> <p><b>Program Name</b> - Student Financial Aid Cluster - 84.007, 84.033, 84.063, 84.268, and 84.375</p> <p><b>Pass-through Entity</b> - N/A</p> <p><b>Finding Type</b> - Significant deficiency and noncompliance condition</p> <p><b>Criteria</b> - The College must calculate and monitor the satisfactory academic progress for each student receiving federal financial aid. The College's satisfactory academic progress guidelines must at least meet the minimum federal requirements.</p> <p><b>Condition</b> - For two of the 25 students selected for testing, the College's system did not properly assign the appropriate status code (probation versus unsatisfactory progress) for one of a multiple of satisfactory academic progress measurements that was not met (34 CFR Section 668.32(f)).</p> <p><b>Questioned Costs</b> - Known error in sample - none; total error - unknown</p> <p><b>Cause and Effect</b> - The College's electronic process to identify unsatisfactory academic progress was unable to properly recognize students in their second year of not meeting academic progress for multiple measurements. The issue was a result of not having an adequate system in the prior year to identify if a student failed multiple satisfactory academic progress measurements.</p> <p>The result is that the status code (probation versus unsatisfactory progress) may be incorrect for students who failed more than one satisfactory academic progress measurement in the prior year.</p> <p><b>Recommendation</b> - The College should update its electronic satisfactory academic progress identification rules to apply the proper codes for students who fail to meet multiple satisfactory academic progress measurements for multiple criteria.</p>

# School District of the City of Dearborn, Michigan

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

### Section III - Federal Program Audit Findings (Continued)

Reference Number	Findings
2007-01 (Continued)	<p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The College's Satisfactory Academic Progress (SAP) policy evaluates student progress based on one qualitative and two quantitative standards. If a student fails any one of the three standards, they are automatically placed in either a probationary status (for the qualitative standard or one of the quantitative standards) or an unsatisfactory status (for the second quantitative standard). A student who is placed in a probationary status and who continues to fail the same standard in the subsequent year is automatically placed in an unsatisfactory status at the end of the second year.</p> <p>During the 2005-2006 academic year, the College's electronic SAP process was only set up to flag students for the first violated SAP standard encountered in the review process and it did not identify situations in which more than one standard was violated. This issue was identified as a finding (2006-03) in the College's 2005-2006 Circular A-133 audit, completed September 22, 2006, and was subsequently corrected for all future processing.</p> <p>The SAP process evaluating 2006-2007 financial aid eligibility for the two students identified by the auditors in this finding was run early in the 2006-2007 academic year, before the issue identified in the 2005-2006 Circular A-133 audit (completed on September 22, 2006) was corrected. While these students were properly identified by the College as being unsatisfactory for SAP purposes based on one standard of evaluation, they were not flagged as being in a probationary status on a secondary standard which they also violated. Both students filed SAP appeals for the 2006-2007 academic year; based on their identified unsatisfactory performance, the appeals were approved, and the students were properly awarded financial aid for the 2006-2007 academic year. (Note: No appeal would have been required for the second standard violated but not flagged, as it would have resulted in a probationary determination and appeals are not required for a probationary designation.)</p> <p>The College concurs that the SAP determination at the end of the 2006-2007 academic year, for determining aid eligibility for the 2007-2008 academic year, should reflect an unsatisfactory standing for two standard violations and the College has taken measures to correct this initial oversight.</p>

# School District of the City of Dearborn, Michigan

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

### Section III - Federal Program Audit Findings (Continued)

Reference Number	Findings
2007-02	<p><b>Henry Ford Community College</b></p> <p><b>Program Name</b> - Student Financial Aid Cluster - 84.007, 84.033, 84.063, 84.268, and 84.375</p> <p><b>Pass-through Entity</b> - N/A</p> <p><b>Finding Type</b> - Significant deficiency and noncompliance condition</p> <p><b>Criteria</b> - The College must review a student's eligibility for federal aid and apply the federal aid to the appropriate semesters.</p> <p><b>Condition</b> - Of the 25 students selected for eligibility and disbursement testing, one of those students did not have their Academic Competitiveness Grant properly applied to their account. The College improperly applied Academic Competitiveness Grant funds to a semester prior to a student meeting the eligibility requirements (34 CFR Section 691.1(a)).</p> <p><b>Questioned Costs</b> - Known error in sample - \$162; total error - unknown</p> <p><b>Cause and Effect</b> - The College appropriately recognized the student was eligible to receive the federal aid in the winter and spring semesters. However, when the funds were applied to the student's account, a manual input error occurred and the funds were applied in the fall and winter semesters. As a result, the student received an additional \$162 because the student was enrolled full-time in the fall semester and three-quarter time in the spring semester. Once the issue was brought to the College's attention by Plante &amp; Moran, PLLC the error was corrected and the \$162 was returned to the federal government.</p> <p><b>Recommendation</b> - The College should consider implementing a manual review procedure to verify recipients of the Academic Competitiveness Grant have completed the requisite criteria.</p>

# **School District of the City of Dearborn, Michigan**

## **Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007**

### **Section III - Federal Program Audit Findings (Continued)**

Reference Number	Findings
2007-02 (Continued)	<b>Views of Responsible Officials and Planned Corrective Actions</b> - The College concurs with this finding and has taken measures to try to prevent such a situation from occurring in the future. The Academic Competitiveness Grant (ACG) was a new federal grant program instituted after processing had already begun for the 2006-2007 academic year. The College only had 11 award recipients during the 2006-2007 academic year and administered the program manually. As the auditors indicated, the particular situation cited was corrected immediately upon identification and procedures have been implemented for 2007-2008 academic year awarding to ensure a secondary review of all ACG awards.

# School District of the City of Dearborn, Michigan

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

### Section III - Federal Program Audit Findings (Continued)

Reference Number	Findings
2007-03	<p><b>Henry Ford Community College</b></p> <p><b>Program Name</b> - Student Financial Aid Cluster - 84.007, 84.033, 84.063, 84.268, and 84.375</p> <p><b>Pass-through Entity</b> - N/A</p> <p><b>Finding Type</b> - Significant deficiency and noncompliance condition</p> <p><b>Criteria</b> - The College must disburse the appropriate amount of federal aid based on the student's enrollment status.</p> <p><b>Condition</b> - Of the 25 students selected for eligibility and disbursement testing, one of those students was overawarded. The College improperly disbursed Pell Grant funds for one student based on three-quarter enrollment when the student's final enrollment status was half-time (34 CFR Section 690.62(a)).</p> <p><b>Questioned Costs</b> - Known error in sample - \$506; total error - unknown</p> <p><b>Cause and Effect</b> - In order to determine a student's enrollment status, the College's system relies on manually input class start, withdrawal, census, and end dates. The census date is the last date during which a student can drop a class and still receive a refund and not have the class appear on their academic transcript. The student enrolled in a class that started later than the majority of the classes held at the College. The class census date was not properly updated, and therefore did not allow the system to properly determine that the withdrawal date occurred prior to the census date. As a result, the system determined that the student was enrolled as three-quarter status instead of half-time.</p> <p><b>Recommendation</b> - The College should develop a method and process to identify and record the proper census and withdrawal dates for all courses in which a student is enrolled.</p>



# School District of the City of Dearborn, Michigan

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

### Section III - Federal Program Audit Findings (Continued)

Reference Number	Findings
2007-03 (Continued)	<p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The College concurs with the tenor of this finding, in that the College agrees that the referenced student was improperly paid Pell Grant funding at a three-quarter time enrollment level instead of a half-time enrollment level on February 8, 2007.</p> <p>While the census date is automatically loaded in the administrative computing system for the more common 15-week classes, the census date is currently loaded into the system manually for late-starting 12-week and 8-week classes and, in the case of the class involved in this citation, it was not loaded correctly, resulting in the financial aid disbursement program believing that this student had dropped from three-quarter time to half-time after the census date.</p>

# School District of the City of Dearborn, Michigan

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

### Section IV - Summary of Prior Year Federal Program Audit Findings

Reference Number	Findings
2006-1	<p><b>Henry Ford Community College</b></p> <p><b>Program Name</b> - Student Financial Aid Cluster - 84.007, 84.033, 84.063, and 84.268</p> <p><b>Pass-through Entity</b> - N/A</p> <p><b>Finding Type</b> - Significant deficiency and noncompliance condition</p> <p><b>Criteria</b> - The College cannot disburse loans to first-time, first-year undergraduate students until 30 days after the first day of classes.</p> <p><b>Condition</b> - Of a sample of 25 students, two students that were first-time, first-year undergraduates received a loan disbursement within the first 30 days of classes. For one student, the loan disbursement was for \$3,264 and was made on August 28, 2005. For the second student, the loan disbursement was for \$3,157 and was made on September 21, 2005. The fall semester started on August 25, 2005.</p> <p><b>Status</b> - The College no longer runs immediate transmittal of aid, but instead runs a report to identify all first-time borrowers prior to transmitting aid to students' accounts. As of May 2005, an automated process of identifying first-time, first-year undergraduate borrowers was developed utilizing a third-party reporting tool. This process was implemented effective with the Spring 2005 semester. Minor issues were identified with this process in late 2005 and changes were made to improve the process, effective July 1, 2006. As of September 10, 2007, the College has cohort default rates of less than 10 percent for each of the three most recent fiscal years for which data are available and, as a result, the College is no longer required to delay the first disbursement of a loan for 30 days for first-time, first-year undergraduate borrowers. Effective with the winter 2008 semester, the College will no longer delay such disbursements.</p>

# School District of the City of Dearborn, Michigan

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

### Section IV - Summary of Prior Year Federal Program Audit Findings (Continued)

Reference Number	Findings
2006-2	<p><b>Henry Ford Community College</b></p> <p><b>Program Name</b> - Student Financial Aid Cluster - 84.007, 84.033, 84.063, and 84.268</p> <p><b>Pass-through Entity</b> - N/A</p> <p><b>Finding Type</b> - Significant deficiency and noncompliance condition</p> <p><b>Criteria</b> - The College must calculate and monitor the satisfactory academic progress for each student receiving federal financial aid.</p> <p><b>Condition</b> - The College improperly disbursed federal financial aid to one of the 25 students selected for testing.</p> <p><b>Status</b> - Once the electronic process to calculate Satisfactory Academic Progress (SAP) is run, any student who is determined to be unsatisfactory has a hold immediately placed on their financial aid record which will prevent the awarding of federal aid to a student who has not yet been awarded and which will also prevent the disbursement of federal aid to students who have already been awarded. At the time of this citation, aid disbursement was only being blocked for the subsequent semester and not for the entire academic year.</p>

# School District of the City of Dearborn, Michigan

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

### Section IV - Summary of Prior Year Federal Program Audit Findings (Continued)

Reference Number	Findings
2006-3	<p><b>Henry Ford Community College</b></p> <p><b>Program Name</b> - Student Financial Aid Cluster - 84.007, 84.033, 84.063, and 84.268</p> <p><b>Pass-through Entity</b> - N/A</p> <p><b>Finding Type</b> - Significant deficiency and noncompliance condition</p> <p><b>Criteria</b> - The College must calculate and monitor the satisfactory academic progress for each student receiving federal financial aid. The College's satisfactory academic progress guidelines must at least meet the minimum federal requirements.</p> <p><b>Condition</b> - The College's electronic process to calculate satisfactory academic progress does not account for students who receive an unsatisfactory status after financial aid is packaged; the College then has to manually cancel the aid for all remaining semesters.</p> <p><b>Status</b> - During the 2005-2006 academic year, the College's electronic SAP process was only set up to flag students and notify them of the first violated SAP standard encountered in the review process and it did not identify situations in which more than one standard was violated. This issue was identified in the College's 2005-2006 Circular A-133 audit, completed September 22, 2006, and was subsequently corrected for all future processing, such that a student who fails more than one SAP standard is flagged and notified of each standard which they have violated.</p>

# School District of the City of Dearborn, Michigan

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

### Section IV - Summary of Prior Year Federal Program Audit Findings (Continued)

Reference Number	Findings
2006-4	<p><b>Henry Ford Community College</b></p> <p><b>Program Name</b> - Student Financial Aid Cluster - 84.007, 84.033, 84.063, and 84.268</p> <p><b>Pass-through Entity</b> - N/A</p> <p><b>Finding Type</b> - Significant deficiency and noncompliance condition</p> <p><b>Criteria</b> - The College must calculate return to Title IV funds within 30 days from the date of the student's withdrawal. Withdrawal dates are defined as the time when the student officially withdraws or expresses notification to withdrawal or, if the student does not officially withdraw, the date that the College determines the student is no longer in attendance.</p> <p><b>Condition</b> - Of the 32 students selected for return to Title IV testing, three of those students did not have return to Title IV calculations done within the allotted 30-day time frame.</p> <p><b>Status</b> - Three of the 32 students selected for Return to Title IV Funds (R2T4) testing during the 2005-2006 Circular A-133 audit had their R2T4 calculations completed outside the 30-day required timeframe, but within the 45-day timeframe which became effective July 1, 2006. The College has taken additional steps in the past year to help ensure that all R2T4 calculations are performed within the 30-day required time frame and that funds are returned within the 45-day required time frame.</p>

# School District of the City of Dearborn, Michigan

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

### Section IV - Summary of Prior Year Federal Program Audit Findings (Continued)

Reference Number	Findings
2006-5	<p><b>Henry Ford Community College</b></p> <p><b>Program Name</b> - Student Financial Aid Cluster - 84.007, 84.033, 84.063, and 84.268</p> <p><b>Pass-through Entity</b> - N/A</p> <p><b>Finding Type</b> - Significant deficiency and noncompliance condition</p> <p><b>Criteria</b> - The College must include all classes added after the drop/add period in determining enrollment level for financial aid disbursement purposes.</p> <p><b>Condition</b> - Of the 32 students selected for return to Title IV testing, three of those students did not have return to Title IV calculations done within the allotted 30-day time frame.</p> <p><b>Status</b> - As was indicated in the original response to this finding, the population of students/transactions in which this situation could occur is very minimal, as the adding of a student to a class after the end of the drop/add period is a rarely granted exception. However, the College has addressed this issue by modifying the aid disbursement process such that a report is generated and reviewed prior to disbursement, identifying (among other things) students who have increased their enrollment after the census date. If such a situation is identified and a change in the systematically scheduled disbursement amount is appropriate, the disbursement is handled manually. Additionally, the Financial Aid Office has increased its contact with the Registration Office regarding the identification of these and other exceptional situations and the Financial Aid Office is in the process of developing a second report to be run periodically to specifically identify all "adds" that have taken place after census dates.</p>

October 9, 2007

To the Audit Committee  
School District of the City of  
Dearborn, Michigan and  
Henry Ford Community College  
18700 Audette Street  
Dearborn, MI 48124-4295

We have recently completed our audit of the financial statements of the School District of the City of Dearborn, Michigan ("Dearborn Public Schools" or the "School District") for the year ended June 30, 2007. Dearborn Public Schools includes the activities of preschool through grade twelve (the "P-12") and Henry Ford Community College (the "College"). The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible. This report is intended solely for the use of the audit committee, Board of Education, and others within the organization.

### **Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America**

We conducted our audit of the financial statements of Dearborn Public Schools in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. The following paragraphs explain our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's responsibility. We may make suggestions as to the form or content of the financial statements or even draft them, in whole or in part, based on management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the representations of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote. For this purpose, materiality has been defined as “the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.”

An independent auditor’s objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor’s work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, “in our opinion.”

### **Auditor’s Responsibility for Testing and Reporting on Internal Controls and Compliance with Laws and Regulations**

In the audit process, we gain an understanding of the internal control structure of an entity as well as the laws and regulations having a direct and material effect on the entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, observation, and review of organization documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the entity’s internal control structure or the entity’s compliance with laws and regulations.



The limited purpose of these tests in a financial statement audit may not meet the needs of some users of auditors' reports who require additional information on internal controls and on compliance with laws and regulations. To meet certain audit report users' needs, laws and regulations often prescribe testing and reporting on internal controls and compliance to supplement the financial statement audit's coverage of these areas. In accordance with regulatory requirements covering federal (awards) financial assistance, supplemental testing of and reporting on internal controls and compliance was performed. Nevertheless, even after performing and reporting the results of these additional tests of internal controls and compliance required by laws and regulations, some reasonable needs of report users still may be unmet. We may meet these needs by performing further tests of internal controls and compliance with laws and regulations in either of two ways:

1. Supplemental (or agreed-upon) procedures, or
2. Examination, resulting in an opinion

For the year ended June 30, 2007, we were not engaged to, nor did we perform the additional services listed in 1 and 2 above.

### **Significant Accounting Policies**

Auditing standards call for us to inform you regarding the initial selection of, and change in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. It is to that end that we inform you of the following matters:

- As you know, Executive Order 2007-3 and Public Act No. 17 of 2007 each deferred one-half of the College's August 2007 state appropriation payment (totaling \$1,848,000) to the State's 2007-2008 fiscal year. Consistent with the revenue recognition criteria of Governmental Accounting Standards Board No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the College did not recognize state appropriation revenue for the deferred payments.
- In addition, Executive Order 2007-3 further reduced the College's state appropriation by \$1,266,800 in exchange for a credit toward the College's MPERS contribution in the same amount. As a result, both state appropriation revenue and retirement contribution expenditures were reduced by the amount of the credit.

## **Management's Judgments and Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Auditing standards call for us to report to you about accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments. Further, we are expected to report to you about the process used by management in formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates. In this connection, we are reporting the following matters:

- The actuarial calculation of employee severance liabilities for the College and P-12 include estimates and assumptions that include discount rates, assumed wage increases, attrition assumptions, and estimates as to when benefit payments will be made. Management should review the actuarial calculation, including all estimates and assumptions related to the liability. The liabilities total \$1.2 million for the College and \$1.6 million for the P-12.
- The College has recorded allowances for uncollectible student and company receivables totaling approximately \$900,000 at June 30, 2007. This represents management's estimate of uncollectible receivable accounts and is based on historical collection experience.
- The School District is self-insured or partially self-insured for various risks including property, general liability, medical, dental, vision, and workers' compensation claims. As a result, management has made estimates of incurred but not reported (IBNR) claims and recorded a liability of approximately \$3,169,000 accordingly.

## **Audit Adjustments**

Auditing standards call for us to report to you significant audit adjustments that, in our judgment, may not have been detected except through the auditing procedures we performed. The following matters are being reported to you in this area.

### **Adjustment to the P-12 Books and Records**

- An adjustment was made to record costs related to work performed prior to June 30, 2007 on various on-going capital project activities within the Fordson Field Fund.

### **Adjustments to the College's Books and Records**

- Adjustments were made to properly record construction in progress.
- Adjustments were made to property tax revenue, bond activity, and other activity as it relates to interfund balances with the P-12.

Auditing standards also require us to inform the audit committee about uncorrected possible financial statement adjustments identified by us during the current engagement and pertaining to the latest period presented, which were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of the unrecorded possible financial statement adjustments is included as an attachment to this letter.

### **Other Information in Documents Containing Audited Financial Statements**

When our audit report and the audited financial statements are included in a client document, we have a responsibility to read that document and consider whether anything therein is inconsistent with the information in the audited financial statements. It is our understanding that the audited financial statements are currently not expected to be included in any other document.

### **Disagreements with Management**

In the process of conducting an audit, various matters will be discussed with management. In that process, significant differences of opinion may arise regarding the scope of the audit, the application of accounting principles, disclosures to be included in the organization's financial statements, or the wording of our report. In the interest of keeping you informed of all significant matters, such differences are required to be reported to you even though they are satisfactorily resolved. There were no disagreements with management over the application of accounting principles or the basis for management's judgments about accounting estimates. Additionally, there were no disagreements regarding the scope of the audit, disclosures to be included in the financial statements, or the wording of the auditor's report.

### **Consultation with Other Accountants**

When management consults with other accountants about significant accounting and auditing matters, auditing standards require that we present our views on those matters to you. To our knowledge, there were no such consultations with other accountants.

To the Audit Committee  
School District of the City of  
Dearborn, Michigan and  
Henry Ford Community College

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October 9, 2007

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink, appearing to read "Fred Hailer Jr".

Frederick C. Hailer, Jr.

A handwritten signature in black ink, appearing to read "Michael Schrage".

Michael C. Schrage

Client: Dearborn Public Schools  
 Opinion Unit: Governmental Activities  
 Y/E: 6/30/2007

## SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

		Increases (Decreases)				
Ref. #	Description of Misstatement	Assets	Liabilities	Net Assets	Revenue	Expenses
<b>Known Misstatements:</b>						
A1	To record retainage amounts on Fordson Field		103,070			103,070
A2	To record retainage amount on Edsel Ford HVAC		22,470			22,470
A3	To record additional liabilities for the Abraham settlement		161,656			161,656
<b>Estimate Adjustments:</b>						
B1	NONE					
B2						
<b>Implied Adjustments:</b>						
C1	NONE					
C2						
		-	-	-	-	-
Combined Effect		-	287,196	-	-	287,196

### SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

Ref. #	Description of Misstatement	Current Assets	Long-Term Assets	Current Liabilities	Long-Term Liabilities	Net Assets	Revenue	Expenses	Change in Net Assets
<b>KNOWN MISSTATEMENTS:</b>									
A1	NONE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
A2									-
									-
									-
									-
									-
<b>ESTIMATE ADJUSTMENTS:</b>									
B1	To increase the allowance for sponsor receivables older than one year	(175,000)						175,000	(175,000)
B2									-
									-
									-
<b>IMPLIED ADJUSTMENTS</b>									
C1	To extrapolate capitalization error identified during fixed asset addition testing. See A-I known misstatements above.		441,000					(441,000)	441,000
C2									-
									-
									-
									-
Total		\$ (175,000)	\$ 441,000	\$ -	\$ -	\$ -	\$ -	\$ (266,000)	\$ 266,000